FY 2001 Performance & Accountability Report

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

TABLE OF CONTENTS

TABLE OF CONTENTS

MESSAGE FROM SECRETARY MARTINEZ

I am pleased to present the U.S. Department of Housing and Urban Development's Fiscal Year (FY) 2001 Performance and Accountability Report. The report provides information on the program performance and management stewardship of HUD's vital housing and community development programs.

Helping more Americans reach the dream of homeownership, ensuring affordable housing opportunities, strengthening and renewing our communities, and offering a compassionate hand to individuals in need – are the principles that guide our work each day at HUD. I am proud to report that our nation's homeownership reached an all-time high of 68.1 percent at the end of FY 2001. HUD has a variety of programs that contribute to homeownership with a focus on populations and geographic areas that are underserved by the conventional market. HUD will continue to expand its efforts to increase minority homeownership in FY 2002 and beyond. My administration is also expanding HUD's existing strategic goals and objectives to place greater emphasis on HUD's regulatory role, which will help simplify the homebuying process and take necessary steps to eliminate predatory lending.

We recognize that homeownership is not an option for everyone, and HUD has increased its commitment to those Americans who depend upon affordable rental housing. HUD's public and assisted housing programs provided affordable housing to nearly 4.8 million households in FY 2001. Working with our public housing agency and private owner partners, great strides were made in improving the physical conditions at HUD-assisted rental housing projects in the past year. Other HUD housing grant program funds were utilized by local government entities and housing sponsors to provide affordable rental housing for additional households. HUD programs provided housing and other essential support to a wide range of populations with special needs, including the elderly, persons with disabilities, homeless persons, and individuals with HIV/AIDS. HUD's core community and economic development programs continued to play an essential role in helping communities address locally determined community and economic development priorities, to establish and maintain long-term prosperity.

As presented in the "Management and Performance Challenges" section of the report, HUD initiatives under the President's Management Agenda are addressing the major management challenges facing the Department, by providing a needed focus on the strategic management of human capital, competitive sourcing of services, improved financial performance, expanded electronic government, and increased budget and performance integration. We look forward to a continued successful working relationship with our program partners, and the Congress, to improve both the performance and the financial accountability of HUD's vital housing and community development programs, which will ultimately better serve the American people.

Mel Martinez
Secretary

THE CHIEF FINANCIAL OFFICER'S MESSAGE

In my first year as the Chief Financial Officer for the U.S. Department of Housing and Urban Development, I have worked closely with the Department's program and administrative components to better understand and address the many significant financial management and program performance challenges facing the Department. I am pleased to report that the Department's collective management team is rising up to meet those challenges, with significant accomplishments reflected in this report on FY 2001, and viable plans in place for further necessary management improvements.

I am further pleased to report the Office of Inspector General's (OIG) issuance of an unqualified or clean audit opinion on the Department's fiscal year 2001 consolidated financial statements. While this is just the third time HUD has received a clean opinion, it is also the first time a clean opinion was received for two consecutive years. Consecutive clean audit opinions is both an indicator of financial management stability and a reflection of the considerable efforts and collaboration – by staff from the Office of the Chief Financial Officer (OCFO), HUD program and administrative offices at headquarters and in the field, and the OIG – to timely prepare auditable financial statements and complete the independent audit process. A contributing factor to this stability was the OCFO's successful efforts to correct two prior year reportable conditions pertaining to the reliability and security of HUD's critical financial systems, and controls over fund balance with Treasury reconciliations. The Federal Housing Administration and Government National Mortgage Association components of HUD also received unqualified audit opinions on their separate FY 2001 financial statements.

While receipt of a clean audit opinion is important in sustaining confidence in HUD's consolidated financial statements for Office of Management and Budget (OMB), Congressional and public users, we are very mindful of the financial management discipline and vigilance required to maintain that confidence, and of the need for continued progress in resolving remaining material management control weaknesses and reportable conditions still associated with our underlying financial management operations. Corrective action plans have been put in place and are progressing to address the Department's remaining high risk and material weakness issues associated with the rental housing assistance and single family mortgage insurance programs, as well as improved compliance with federal financial management systems requirements.

I look forward to continuing a close working relationship with HUD's management team, OMB and the Congress, to meet HUD's future financial management and program performance challenges.

Very respectfully,

Angela M. Antonelli

Angela M. Antonelli
Chief Financial Officer

Management Overview

HUD's Mission

As the Department embraces the new century, HUD's mission is to:

Promote adequate and affordable housing, economic opportunity, and a suitable living environment free from discrimination.

To fulfill this mission, HUD will be a high performing, well respected, and empowering partner with all levels of government, the private sector, and with families and individuals. This commitment to ensuring competence and public trust permeates all Departmental planning and is an integral part of each strategic objective.

Strategic Goals and Objectives

For Fiscal Year (FY) 2001, HUD had five strategic goals in support of the Department's mission:

1. Increase the availability of decent, safe, and affordable housing in American communities.
2. Ensure equal opportunity in housing for all Americans.
3. Promote self-sufficiency of and asset development by families and individuals.
4. Improve community quality of life and economic vitality.
5. Ensure public trust in HUD.

The Discussion and Analysis (D&A) section of this report presents selected key indicators for the strategic goals. Detailed information on all the HUD performance indicators is presented in Section III, Performance Information.

In October 2001, Secretary Mel Martinez outlined his new priorities and strategic goals that will guide the Department.

HUD's Mission:

Promote adequate and affordable housing, economic opportunity, and a suitable living environment free from discrimination.

Vision:

To fulfill our mission, HUD will be a high-performing, well-respected, and empowering partner with all levels of government, with the private sector, and with families and individuals.

Strategic Goal 1	Strategic Goal 2	Strategic Goal 3	Strategic Goal 4	Strategic Goal 5
Increase the availability of **decent, safe** and **affordable housing** in American communities.	Ensure **equal opportunity** in housing for all Americans.	Promote **self-sufficiency** of and **asset development** by families and individuals.	Improve community **quality of life** and **economic vitality**.	Ensure **public trust** in HUD.
Strategic Objectives	**Strategic Objectives**	**Strategic Objectives**	**Strategic Objectives**	**Strategic Objectives**
1.1 Homeownership is increased.	2.1 Housing discrimination is reduced.	3.1 Homeless families and individuals become self-sufficient.	4.1 The number, quality, and accessibility of jobs increase in urban and rural communities.	5.1 HUD and HUD's partners effectively deliver results to customers.
1.2 Affordable rental housing is available for low-income households.	2.2 Low-income people are not isolated geographically in America.	3.2 Poor and disadvantaged families and individuals become self-sufficient and develop assets.	4.2 Disparities in well-being among neighborhoods and within metropolitan areas are reduced.	5.2 HUD leads housing and urban research and policy development nationwide.
1.3 America's housing is safe and disaster resistant.	2.3 Disparities in homeownership rates among racial and ethnic groups are reduced.		4.3 Communities are safe.	

HUD'S COMPONENTS

HUD' s organizational components fall into three main groups:

1. Major program areas;

2. Program monitoring offices and processing centers; and

3. Support staff and organizations.

There is an Organization Chart at the end of this section that shows the relationship of these entities.

Major Program Areas

Federal Housing Administration (FHA)

FHA programs provide insurance on mortgages relating to one to four family residences, multi-family rental housing, condominiums, nursing homes, assisted living facilities, hospitals, manufactured housing, property improvement, and "special risk" units.

The Office of Housing

The Office of Housing administers various rental subsidy, homeownership subsidy, and grant programs designed to provide housing to low, very low, and moderate income persons.

Section 8 Project-Based Rental Assistance: This program encourages owners to develop or rehabilitate rental housing for low and very-low income families with rental assistance tied to specific units under an assistance contract with the project owner.

Section 202/811 Capital Grants: Capital grants are provided for the construction and long-term support of housing for the elderly (Section 202) and persons with disabilities (Section 811). Advances are interest-free and do not have to be repaid providing the housing remains available for low-income persons for at least 40 years. Prior to the Section 202 Capital Grant program, Section 202 loans were made to finance housing for low-income elderly persons.

Other Housing Programs: Housing also maintains manufactured housing construction and safety standards, administers the Real Estate Settlement Procedures Act (RESPA), and regulates interstate land sales. There are some terminated loan programs, such as the Section 202 Loan program, which still have outstanding loans. Additionally, programs such as the Homeownership Assistance Program (Section 235) and the Rental Housing Assistance Program (Section 236) are inactive but insurance for the programs is still in force.

Government National Mortgage Association (Ginnie Mae)

Through its Mortgage-Backed Securities program, Ginnie Mae facilitates the financing of residential mortgage loans by guaranteeing the timely payment of principal and interest to investors of privately issued securities backed by pools of mortgages insured or guaranteed by FHA, the Department of Veterans Affairs, and the Rural Housing Service. The Ginnie Mae guarantee gives lenders access to the capital market to originate new loans.

The Office of Public and Indian Housing (PIH)

PIH programs serve low and very low-income families and individuals who live in public housing, Section 8-assisted housing, and Native American housing. Major activities are described below:

Housing Certificate Fund

Section 8 Tenant-based Rental Assistance: Low- and very low-income families receive rent subsidies to enable them to obtain decent, safe and sanitary housing in privately owned housing units. This tenant-based program is administered through State and local Housing Agencies (HAs).

Public Housing Operating Fund

Operating Subsidies: Financial assistance in the form of subsidies is provided for project operation to approximately 3,200 HAs with approximately 1.3 million units under management.

Public Housing Capital Fund

Funds are provided by formula for capital improvements (i.e., developing, rehabilitating and demolishing units), for replacement housing, and for management improvements .

Other Public Housing Programs

Native American Housing Block Grants and Home Loan Guarantees: Native Americans are assisted in building or purchasing homes on Trust Land; obtaining affordable housing; implementing local housing strategies to promote homeownership; and developing viable communities.

Services to Families and Individuals: Grants are provided for HAs to administer programs that help to stabilize the lives of families living in public housing.

HOPE VI: Funds are awarded to HAs for demolition of obsolete public housing; major reconstruction, rehabilitation, and new construction; management improvements; planning and technical assistance; and self-sufficiency programs for residents.

The Office of Community Planning and Development (CPD)

CPD administers the Department's major economic and community development grant programs, several housing programs, and HUD's homeless assistance programs. The following are the largest:

Community Development: Community Development Block Grants are provided to units of local government and States for the funding of local community development programs that address housing and economic development needs, primarily for low and moderate income persons.

Affordable Housing Programs: HOME Investment Partnership Grants provide assistance to renters and first-time homebuyers, build State and local capacity to carry out affordable housing programs, and expand the capacity of nonprofit community housing organizations to develop and manage housing. The Housing Opportunities for Persons with AIDS (HOPWA) provides affordable housing and related assistance to persons with HIV/AIDS.

Homeless Programs: Programs developed under the McKinney-Vento Homeless Assistance Act consist primarily of grants to communities to establish comprehensive systems for meeting the needs of homeless people and persons with AIDS.

The Office of Fair Housing and Equal Opportunity (FHEO)

FHEO enforces the Federal Fair Housing Act and other civil rights laws in its effort to ensure equal housing opportunity. The Federal Fair Housing Act prohibits discrimination based on race, color, religion, sex, national origin, disability, or familial status. FHEO also endeavors to direct jobs, training, and economic opportunities to low-income residents in communities receiving housing and community development assistance.

Fair Housing Assistance Program (FHAP) provides grants to State and local agencies that administer fair housing laws which are substantially equivalent to the Federal Fair Housing Act.

Fair Housing Initiatives Program (FHIP) provides funds competitively to private and public entities to carry out local, regional and national programs that assist in eliminating discriminatory housing practices and educate the public and housing providers on their fair housing rights and responsibilities.

The Office of Healthy Homes and Lead Hazard Control

The Office of Healthy Homes and Lead Hazard Control provides funds to State and local governments to develop cost effective ways to reduce lead-based paint hazards and other housing related health risks.

The Office of Federal Housing Enterprise Oversight (OFHEO)

OFHEO is an independent office within HUD that provides oversight with respect to the financial safety and soundness of the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal National Mortgage Association (Fannie Mae).

Program Monitoring Offices and Processing Centers

The Real Estate Assessment Center and the Departmental Enforcement Center are designed to provide consistent and comprehensive oversight and improvement of program performance. In addition, Processing Centers centralize repetitive "back-room" functions previously performed in field offices.

The Real Estate Assessment Center (REAC)

REAC is the office that assesses the physical condition, financial soundness, management capability, and resident satisfaction of HUD's multifamily and public housing real estate portfolio. This enables the Department to improve targeting of monitoring and enforcement resources.

The Departmental Enforcement Center (DEC)

DEC is the office into which the bulk of HUD's enforcement efforts have been consolidated making enforcement its primary activity. DEC was created to restore and maintain the public trust by bringing recalcitrant property owners into compliance with HUD program requirements. DEC addresses monitoring and internal control problems with responsibility for distressed multifamily properties; aggressive enforcement strategies for Public Housing Agencies (PHAs); enforcement of all regulatory and business agreements (including suspensions and debarments); and referral of civil cases to the Department of Justice and criminal cases to HUD's Inspector General.

The Financial Management Center (FMC)

FMC is a processing center reporting to the Assistant Secretary for Public and Indian Housing and is responsible for the financial management of the Public and Indian Housing (PIH) tenant-based and Office of Multifamily (MF) Housing project-based Section 8 programs, which HUD administers with Annual Contributions Contracts (ACCs). FMC provides financial management support for approximately 10,400 ACCs. HUD uses annual budgets and requisitions/payment schedules to advance funds to the Housing Authorities and Contract Administrators (collectively "HAs/CAs") that administer these programs.

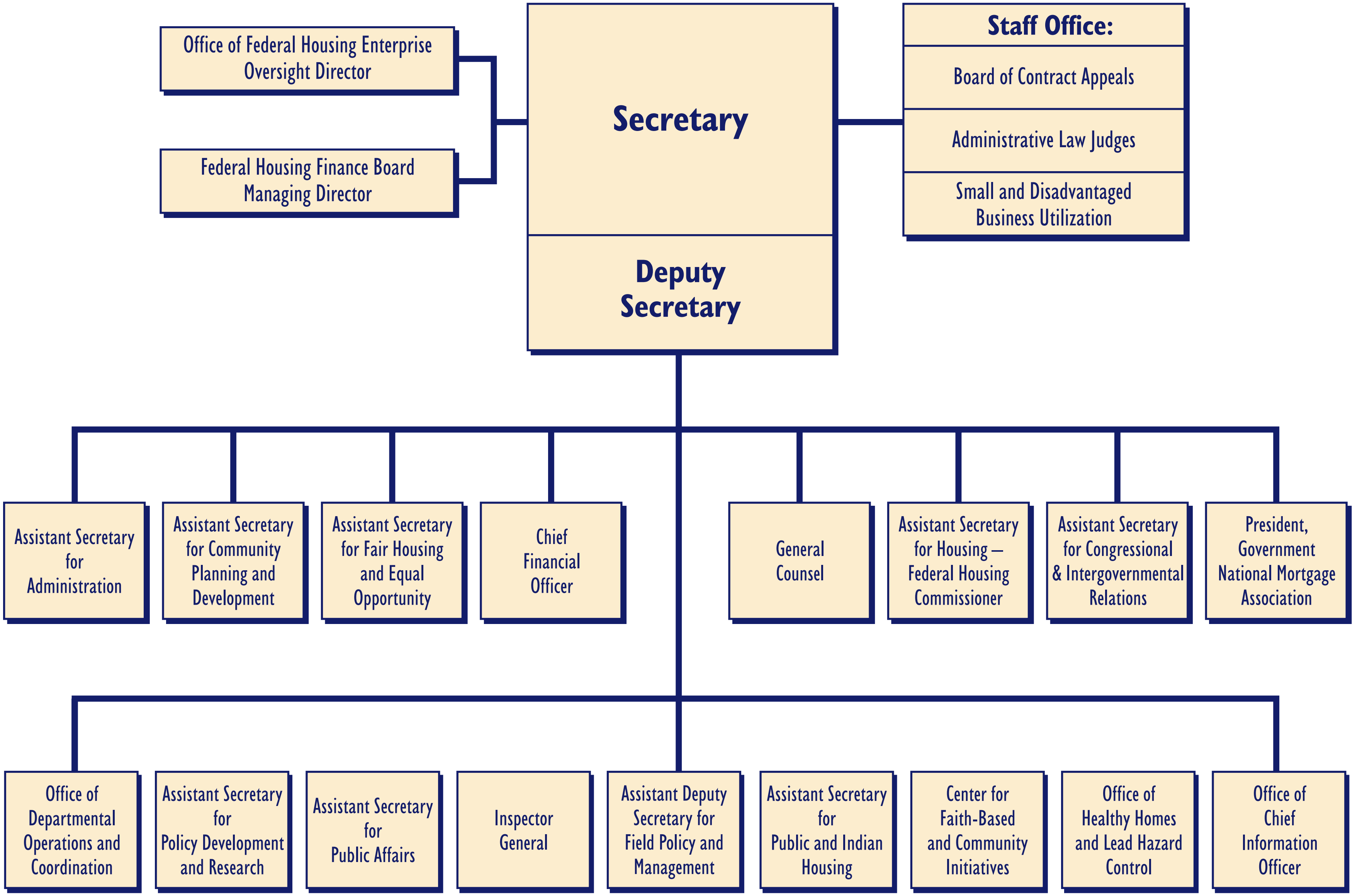
Other Monitoring Offices and Processing Centers

- 18 Multifamily HUBS with 33 program centers;
- 2 Multifamily Property Disposition Centers (MPDCs);
- Office of Multifamily Housing Assistance Restructuring
- 4 Single Family Homeownership Centers (HOCs);
- 2 Public and Indian Housing Troubled Agency Recovery Centers (TARCs);
- Grants Management Center (GMC);
- Financial Operations Center (FOC);
- Accounting Center (AC);
- Administrative Services Center (ASC); and
- Employee Services Center (ESC).

Support Organizations

The major support organizations include the Offices of Administration, Chief Financial Officer, Chief Information Officer, Congressional and Intergovernmental Relations, General Counsel, Inspector General, and Policy Development and Research.

HUD DEPARTMENT OVERVIEW



Discussion and Analysis of Operations

HUD's major program areas fall into three categories:

HUD's grant, subsidy, and loan programs

The Federal Housing Administration (FHA)

The Government National Mortgage Association (Ginnie Mae)

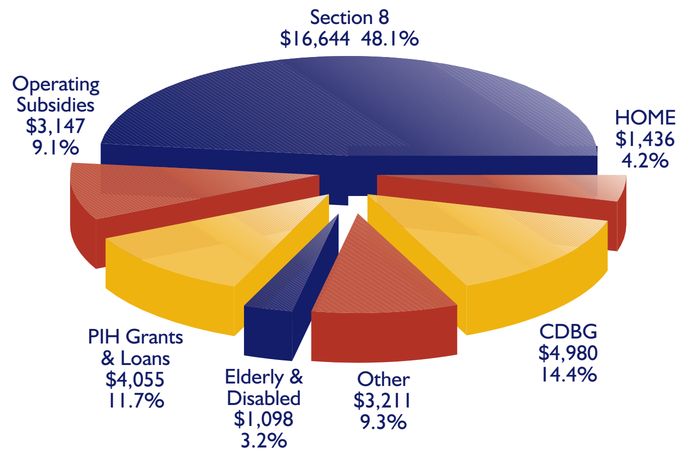
Grant, Subsidy, and Loan Programs

HUD's most significant grant, subsidy, and loan programs, in terms of expenses, are:

- Section 8 Lower Income Rental Assistance;
- HOME Investment Partnerships;
- Community Development Block Grants;
- Housing for the Elderly and Disabled;
- Public and Indian Housing Grants and Loans; and
- Operating Subsidies for Public Housing Agencies.

The consolidating financial statements provide information for each of the above programs. Expenses during FY 2001 for HUD's grant, subsidy and loan programs totaled $34.571 billion compared to $33.656 billion during FY 2000.

Grant, Subsidy, and Loan Program Expenses for FY 2001
(Dollars in Billions)



FHA and Ginnie Mae

FHA provides insurance on mortgages on one-to-four family residences, multifamily rental housing, and other qualified mortgaged properties. Ginnie Mae guarantees the timely payment of principal and interest to privately issued securities backed by pools of mortgages insured or guaranteed by FHA, the Department of Veterans Affairs, and the Rural Housing Service. The program objectives carried out by FHA and Ginnie Mae relate directly to developing affordable housing.

Strategic Goal 1: Increase the Availability of Decent, Safe, and Affordable Housing in American Communities

One of HUD's most important roles is to increase the availability of decent, safe and affordable housing for all Americans. Many HUD programs are dedicated to expanding opportunities for those who wish to become homeowners. In addition, HUD strives to improve rental housing affordability, availability and accessibility for low- and moderate-income individuals and families. Although the quality of U.S. housing has steadily improved over the past five decades, actions to reduce or eliminate remaining hazards and substandard conditions and make housing more resistant to disasters are still vital. These perspectives are summarized in the Department's three strategic objectives under this goal:

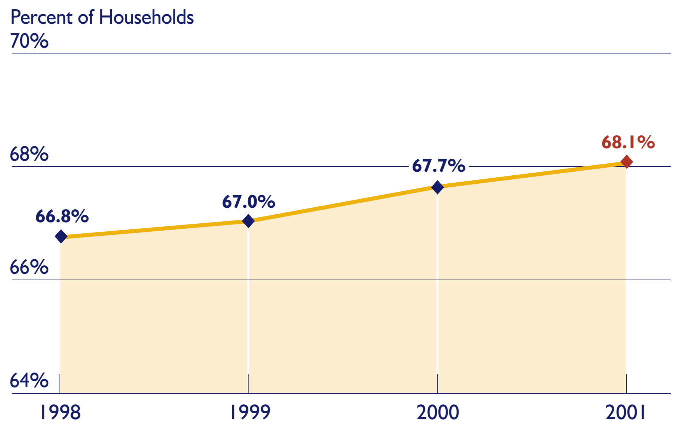
- Homeownership is increased.
- Affordable rental housing is more available for low-income households.
- America's housing is safe and disaster resistant.

Strategic Objective 1.1: Homeownership is increased

Through homeownership, an individual or family makes an investment in the future. A home is an asset that can grow in value and provide capital to finance future needs of a family, such as college for children or financial security for retirement. Additionally, homeownership helps stabilize neighborhoods, strengthen communities, and stimulate economic growth.

HUD has contributed significantly to the Nation's marked progress in raising the homeownership rate. Homeownership has risen steadily since 1993, and by the end of FY 2001 reached a quarterly rate of 68.1 percent. The achievement represented an all-time high for the fifth year running and exceeded the FY 2001 performance goal (1.1.1).[1]

Overall Homeownership Rate



HUD programs focus homeownership promotion on populations and geographic areas that lag behind. In a positive sign of regeneration, central cities have gained homeowners, in part through HUD efforts. In the fourth quarter of FY 2001, the central city homeownership rate was 52.3 percent, up from 51.9 percent in 2000 (performance goal 1.1.4). In addition, the minority homeownership rate, which has made steady gains over the past few years, reached a record 49.2 percent in the fourth quarter of FY 2001. This still lags far behind the national homeownership rate, and the Department will continue to expand its efforts to increase minority homeownership in FY 2002 and beyond.

HUD has a wide variety of programs that support homeownership. The programs with the greatest impact on homeownership are Federal Housing Administration mortgage insurance and the Government National Mortgage Association (Ginnie Mae). These organizations cut the costs of homeownership—including financing, production, and transaction costs and fees—to make homeownership more affordable and financing more

[1] *Performance goals in this section are referenced according to the FY 2001 Annual Performance Plan (APP). Performance is discussed in greater detail in Section III, and background information about the measure and data is presented in the APP.*

widely available. Other programs that contribute to homeownership are the Community Development Block Grants (CDBG) and HOME (Housing Investment Partnerships) programs, and the homeownership voucher program. Homeownership is further advanced through goals set by HUD for the housing government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac.

Overview of the Federal Housing Administration

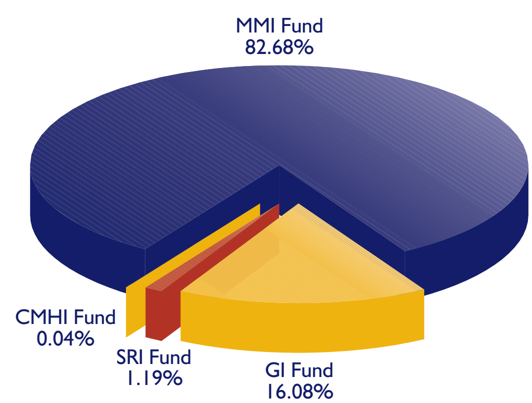
The Federal Housing Administration (FHA) was established under the National Housing Act of 1934 to improve housing standards and conditions, provide an adequate home financing system by insurance of housing mortgages and credit, and stabilize the mortgage market. FHA was consolidated into HUD in 1965. FHA has been an innovator in housing finance from its introduction of mortgage insurance in the 1930s to reverse annuity mortgages for seniors in the 1980s. For over 60 years, FHA has successfully supported the availability of capital for single family and multifamily homeownership and for the development of affordable rental housing, stabilizing the housing markets and providing homeownership opportunities. FHA continues to serve families and markets that are not well served by the conventional mortgage markets.

FHA Funds. FHA insures private lenders against loss on mortgages that finance single family homes, multifamily rental projects and healthcare facilities. FHA also insures private lenders against loss on loans for property improvements and manufactured homes. Its activities are financed by the FHA Funds, which are supported through premium and fee income, interest income, congressional appropriations, borrowings from the U.S. Treasury and other sources. The FHA Funds are:

- The Mutual Mortgage Insurance (MMI) Fund, a historically self-sustaining fund that supports FHA's basic single family homeownership program.
- The General Insurance (GI) Fund, which supports a wide variety of multifamily and single family insured loan programs for rental apartments, cooperatives, condominiums, housing for the elderly, nursing homes, hospitals, property improvement, manufactured housing (Title I) and disaster assistance.
- The Special Risk Insurance (SRI) Fund, which supports multifamily rental projects and loans to high risk borrowers.
- The Cooperative Management Housing Insurance (CMHI) Fund, a historically self-sustaining fund that supports insurance on market-rate cooperative apartment projects. This fund is no longer active, except for refinancing.

Insurance-In-Force. At the end of FY 2001, the MMI Fund comprised 82.68 percent of the FHA Insurance Fund; the GI Fund, 16.08 percent; the SRI Fund, 1.19 percent; and the CMHI Fund, 0.04 percent. The total mortgage insurance-in-force in the FHA Fund was $555 billion, an increase of $11 billion, or 1.99 percent over Fiscal Year 2000 insurance-in-force. Specifically, the MMI Fund increased by $9.7 billion, the GI Fund increased by $1.4 billion, the SRI Fund decreased by $0.236 billion, and the CMHI Fund, the smallest of the four, decreased by $0.002 billion.

FHA Insurance Funds
As of September 30, 2001



FHA's single family mortgage insurance business comprised 89.9 percent of its insurance-in-force. The multifamily and health care insurance comprised 9.6 percent. Title I property improvement and manufactured home insurance comprised 0.5 percent.

FHA Single Family Programs

FHA endorsed 1,067,000 single family mortgage loans in fiscal 2001 (including refinancing), compared with 921,000 in FY 2000 (performance goal 1.1.e). In FY 2001, FHA played a major role in achieving the record homeownership rate by endorsing 643,748 loans to first-time homebuyers, or 79.8 percent of new home purchase endorsements (performance goal 1.1.f). FHA activities contributed to the trend of record homeownership rates among families with incomes below the area median: 52.6 percent in the third quarter of 2000, compared with 52.2 percent in 1999 (performance goal 1.1.3). Approximately 36.5 percent of the new homeowners with FHA mortgage insurance in FY 2001 were minorities compared to 41.7 percent in FY 2000 (performance goal 2.3.a).

MMI Capital Ratio. The MMI Fund supports over 91 percent of FHA's single family insurance-in-force. The financial soundness of this fund is measured by the MMI capital ratio. The National Affordable Housing Act of 1990 requires an independent actuarial analysis of the economic net worth of the MMI Fund. The Act also mandates that the MMI Fund maintain a capital ratio (a measure of the Fund's cushion against unexpected insurance losses) of at least 2 percent. The cushion ensures that FHA's basic single family insurance program could withstand unexpected losses without exposing the taxpayers to financial risk.

Capital Ratio of the FHA Mutual Mortgage Insurance Fund

1998	1999	2000	2001
2.71%	3.66%	3.51%	3.75%

The MMI Fund's capital ratio was 3.75 percent at the end of FY 2001, compared with 3.51 percent in FY 2000 (performance goal 1.1.c).

Increase in Mortgage Limits. HUD continues to insure larger FHA home mortgages to keep pace with rising home prices—which helps additional thousands of families become homeowners each year. The higher loan limits particularly benefit first-time and minority homebuyers, who have traditionally been served by FHA. The new limits also better serve senior citizens who can now qualify for larger insured reverse mortgages.

Secretary-Held Mortgage Notes and Property. Prior to 1996, FHA-insured mortgage notes were assigned to the Secretary when FHA paid a claim prior to foreclosure and took possession of the note for servicing. In 1996 the program was terminated because of the high cost of servicing assigned notes. During FY 1999, notes held by borrowers who applied for the program before April 1996 were again assigned to HUD.

Between FYs 2000 and 2001, the overall unpaid principal balance of Secretary-held mortgage notes decreased by 5 percent to $2,850 million from $2,988 million while the number of notes increased by 6.04 percent. The overall increase in note inventory is mostly due to a 36.45 percent increase in single family notes related to implementing the loss mitigation program, going from 16,611 notes in FY 2000 to 22,666 notes in FY 2001.

The number of Multifamily notes in inventory increased by 26.90 percent to 1,684, and the number of Title I decreased by 6.53 percent (to 39,620 notes) due to a note sale.

FHA has reduced its single family note inventories from approximately $677 million in FY 1997 to $208 million in FY 2001 through bulk note sales.

Legislation passed in 1999 allows FHA to accept mortgage note assignments for single family properties again. FHA can either service the notes directly or transfer them to a third party for servicing. This program, Accelerated Claims Disposition Program, is expected to help FHA dispose of properties more quickly and with a better rate of recovery. A pilot of the new program is scheduled to begin in FY 2002 and to expand over time.

Single-Family Mortgage Notes Held by the Secretary as of September 30th
(Dollars in Millions)

	1998	1999	2000	2001
SF Mortgage Notes	$731	$699	$218	$208
Title I Mortgage Notes	$497	$469	$427	$395

FHA acquires single family and multifamily properties through conveyance claims, or by foreclosing on single-family notes that were assigned to the Secretary. Secretary-held property decreased almost 10 percent in FY 2001 to $3,177 million from $3,518 million. The decrease in property inventory reflects decreases in the number of both single family and multifamily properties acquired throughout this fiscal year

The table below shows that single family property holdings fell by 14 percent in FY 2001 to $2,421million. The Accelerated Claims Disposition Program, described above, is expected to reduce Secretary-held property over time, as notes are sold prior to HUD acquisition of properties.

Single-Family Property Held by the Secretary as of September 30th
(Dollars in Millions)

1998	1999	2000	2001
$3,254	$4,194	$2,827	$2,421

FHA has implemented a number of new policies to improve the acquired property disposition process.

The Management and Marketing (M&M) contracts continue to increase the net recovery of sales proceeds and to reduce the turnover time of acquired properties. The Asset Control Area (ACA) program addresses improving the acquired property disposition process.

- M&M contracts have resulted in a steady decline in FHA's inventory, from 36,000 homes at the end of FY 2000 to 29,000 at the end of FY 2001. The loss per claim has been cut from 37 percent to 32 percent.
- The Asset Control Area (ACA) program allows nonprofit organizations and local governments to purchase FHA-acquired homes in bulk within revitalization areas. The homes are then rehabilitated and sold to moderate- and middle-income households. There are 16 ACAs nationally.

Ginnie Mae

The Government National Mortgage Association (Ginnie Mae), mortgage-backed securities (MBS) program is authorized by Title III of the National Housing Act, as amended. The primary function of Ginnie Mae is to support the federal government's housing initiatives and to attract capital from the nation's financial markets into the residential mortgage markets.

This activity helps to keep mortgage rates lower and to make more mortgages available. Ginnie Mae guarantees the timely payment of principal and interest on securities issued by private institutions and backed by pools of federally unsured or guaranteed mortgage loans. The securitization of FHA-insured, Rural Housing Service, and Veterans Affairs guaranteed mortgages increases the liquidity of funds to lenders making these loans, and thereby decreases the costs of making and servicing loans. This, in turn, helps lower costs for homebuyers using these government housing programs.

Since inception of the MBS program in 1970, Ginnie Mae has guaranteed the issuance of approximately $1.8 trillion in securities, providing the capital to purchase or refinance 26.8 million homes for American families. In FY 2001, Ginnie Mae guaranteed the securitization of 97.9 percent of eligible FHA and VA loans, up from 86.2 percent in FY 2000 because of a slight decrease in competition (performance goal 1.1.a).

The new securitization increased the volume of outstanding single-family MBS securities to $604.3 billion by the end of FY 2001, an increase of $0.80 billion, a slight increase due to the refinancing boom in FY 2001.

Ginnie Mae issued commitments for $161.7 billion in new MBS guarantees during FY 2001, up 84.8 percent from FY 2000 commitments. Ginnie Mae issued a total of $153.8 billion of MBS guarantees, up 45.8 percent from FY 2000. Of these new securities, $148.2 billion were backed by single family mortgages and $5.5 billion were backed by multifamily construction and project loans. The single-family MBS included $0.1 million backed by manufactured housing loans.

FY 2001 was another year of very favorable financial achievement marked by increases in both revenues and assets. Ginnie Mae achieved record net income of $805.3 million, a 6 percent increase from $762.8 million in FY 2000. In FY 2001, Ginnie Mae production provided the capital to finance the purchase or refinance of homes for approximately 1.3 million homes.

Ginnie Mae Single-Family Mortgage-Backed Securities Outstanding as of September 30th

(Dollars in Billions)

1998	1999	2000	2001
$542	$570	$603.5	$604.3

Targeted Lending Initiative. Ginnie Mae implemented its Targeted Lending Initiative in 1996 to help raise homeownership levels in central city areas. The program provides financial incentives for lenders to increase loan volumes in traditionally underserved areas.

The Initiative was expanded in 1999 to include Indian lands, new Urban Empowerment Zones, and new Urban Enterprise Communities. The Initiative now includes Rural Empowerment Zones and Rural Enterprise Communities as well, supporting more competitive mortgage interest rates for properties in these areas. Under the Initiative, Ginnie Mae reduces its guaranty fee as much as 50 percent when approved issuers originate (or purchase) eligible home mortgage loans in designated communities and place them in Ginnie Mae pools.

By increasing lender activity in these targeted areas, Ginnie Mae provides underserved families and households with increased opportunities to achieve homeownership. In 5 years of operation (October 1, 1996- September 30, 2001), the Targeted Lending Initiative has issued $16.6 billion in securities, representing 171,454 loans in 10,835 pools. During FY 2001, $3.1 billion in targeted lending pools were issued.

Government-Sponsored Enterprises

Fannie Mae and Freddie Mac, the two Government Sponsored Enterprises (GSEs) that HUD regulates, help ensure that capital for mortgage lending flows freely by establishing a secondary market for securitized mortgages. HUD's regulations and performance goals for the GSEs establish standards for the share of mortgage purchases originated for low and moderate income households, defined for GSE purposes as those with incomes below the area median income. Beginning in 2001, the Department set higher goals for the GSEs, so that 50 percent of eligible units must be for low and moderate income households. The most recent data available, reflecting calendar 2000, show that 49.5 percent of Fannie Mae mortgage purchases and 49.9 percent of Freddie Mac mortgage purchases supported homes for families with low and moderate incomes (performance goal 1.1.g). These figures include mortgages for affordable multifamily developments. The GSEs together financed over 3.5 million units of housing in 2000. Of this, Fannie Mae financed mortgages supporting 1,054,349 homes for low and moderate-income families (with a principal balance of over $78 billion) and Freddie Mac financed mortgages supporting 788,324 homes for low and moderate income families (with a principal balance of $60 billion).

Strategic Objective 1.2: Affordable rental housing is available for low-income households

For households unable to purchase homes or those preferring to rent, HUD is charged with increasing the availability of decent, safe and affordable rental housing. Over the past 5 decades, the physical quality of rental housing has improved greatly, but housing has become less affordable overall, particularly for poor households. During the 1990s, growing numbers of low-income renters were paying more than 30 percent—in many cases more than 50 percent—of their income for housing expenses.

The latest available American Housing Survey data show that during the 1998-1999 period the Nation and HUD made substantial progress in reducing the severest rental housing burdens, or "worst case needs" for housing assistance. The number of unassisted very-low-income renter households with worst case needs declined from an all-time high of 5.38 million in 1997 to 4.86 million in 1999. Most of these families paid more than half of their already very-low income for housing. This substantial progress reflects a 12 percent decline in worst case needs among elderly households, to 1.03 million, and a 10 percent decline among families with children, to 1.79 million (performance goal 1.2.1).

However, in certain respects, the affordable housing shortage has worsened. For extremely-low-income households,[2] the need for affordable rental housing has actually increased. In 1999, only 75 affordable units were available for every 100 extremely-low-income renters, down from 77 units per 100 renters in 1997 (performance goal 1.2.5). In addition, the number of affordable units that were actually available to very-low-income renters decreased from 72 per 100 renters in 1997 to 68 per 100 renters in 1999 (performance goal 1.2.6). The primary cause of these decreases is the continued loss of affordable housing stock; the existing housing that becomes obsolete is exceeding the new housing stock that becomes available.

The supply of HUD-assisted rental housing continues to be insufficient to meet all of the affordable housing needs of extremely-low-income renters, as the ratio between those who report any form of housing assistance and those with worst-case housing needs (or housing assistance) was only 44.7 percent in 1999 (performance goal (1.2.a). The next American Housing Survey Data will be available in late 2002, covering 2001.

Overview of HUD Rental Assistance

HUD's three basic rental assistance programs—public housing, project-based assisted housing (including supportive housing for the elderly (Section 202) and for persons with disabilities (Section 811)), and Housing Choice Vouchers—provide the most direct means of ensuring affordable rental housing. Under these subsidies, assisted households typically pay 30 percent of income for housing. Other low-income households are helped by the rental assistance component of the Housing Opportunities for Persons With AIDS (HOPWA) program and the tenant-based rental assistance component of the HOME program, under which assisted households also pay 30 percent of their income for housing.

A variety of programs, including HOME, HOPWA and the Low-Income Housing Tax Credit (LIHTC, regulated by the U.S. Department of Treasury), provide subsidies that lower the costs of producing new rental housing or rehabilitating existing housing. Finally, the Rural Housing and Economic Development program provides grants for a variety of housing and capacity building activities, with a focus on the severe needs in reservations, colonias, and small towns.

NAHASDA. Native Americans have long suffered from a shortage of adequate housing. The Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA) provided Indian tribes with the opportunity to assess their tribe's housing needs and develop programs that are responsive to those needs. HUD provides block grants to Tribes and Tribally Designated Housing Entities (TDHEs) to conduct affordable housing and community development activities. Factors

[2] *Extremely-low income is defined as household income less than 30 percent of area median income, and very-low income is less than 50 percent of area median income.*

such as low incomes, lack of financial literacy, remote locations, lack of infrastructure and lack of access to capital prevent a significant number of Native American families from becoming homeowners, so tribes may elect to develop rental programs with NAHASDA funds.

Rental Assistance

The Housing Certificate Fund provides rental assistance to help low and very-low income families obtain decent housing at affordable rents. This fund works through two programs authorized by Section 8 of the Housing Act of 1937. They are known as the "tenant-based" Housing Choice Voucher program and the "project-based" Section 8 program.

The Housing Choice Voucher program works though state and local intermediary housing agencies (HAs). HAs provide families with vouchers that they can use to rent housing in the private market. Families with vouchers pay approximately 30 percent of their income for housing, with the government paying the balance up to a locally-determined maximum. Because this assistance is portable, families can use it to find housing in communities where poverty rates are lower and that are closer to educational and economic opportunities. The total number of units eligible for vouchers was approximately 1.966 million in FY 2001, up from 1.837 million in FY 2000 (see table and footnote on page 19).

The project-based program links rent subsidies directly to units. The program's objectives are to:

- encourage the construction and rehabilitation of rental units;
- stabilize the cash flow of FHA-insured or HUD-held multifamily projects which are in financial difficulty; and
- preserve the low-income use of certain multi-family projects.

Although HUD is not entering into any new contracts for construction or substantial rehabilitation activities, a sizable number of existing contracts for these projects continue to require funding for amendments and renewals. HUD provides project-based rental assistance directly to multifamily project owners through a number of programs.

Section 8 Obligations. Obligations relating to HUD's Housing Choice Voucher and Section 8 project-based programs totaled approximately $42.4 billion and $46.1 billion as of September 30, 2001 and 2000, respectively. For much of the life of the Section 8 program, HUD entered into multi-year contracts with housing agencies and project owners to provide rental subsidies over the term of these contracts. Many of these multi-year contracts have not yet expired. HUD presently renews voucher contracts for only a single year, and any multi-year contract renewals for the project-based program are made subject to annual appropriations. These obligations consist of the subsidies to be paid by HUD applicable to the remaining terms of these contracts.

The Department funds a significant portion of these Section 8 obligations through permanent indefinite appropriations ($26.4 billion and $28.6 billion as of September 30, 2001 and 2000, respectively). These obligations relate to future amounts due under subsidy contracts entered into prior to FY 1988 (primarily relating to the Section 8 and Section 235/236 programs) which operated under contract authority. Contract authority enabled the Department to enter into multi-year contracts with an annual draw against permanent indefinite appropriations to fund amounts due under these contracts.

Utilization of Vouchers. With high levels of worst case housing needs and limited budgetary resources, it is essential that budget resources be used efficiently to provide families with affordable housing. In the past several years, the Department and Congress have taken a number of steps to improve utilization of Housing Choice Vouchers. These include: merging the Section 8 certificate program with the voucher program; reforming the voucher program to make it more attractive to landlords; expanding flexibility for PHAs to raise voucher payment standards to respond to local market conditions; implementing a new Fair Market Rent policy that allows housing agencies experiencing low voucher success rates to base payment standards on the 50th rather than the 40th percentile of rents; and authorizing housing vouchers to be used for homeownership. As agreed in a negotiated rulemaking with relevant stakeholders, HUD has also recently instituted a process that will provide for the reallocation of unused vouchers from PHAs that fail to achieve an adequate utilization rate. However, the full implementation and impact of such reallocations is not anticipated to be experienced until FY 2002.

HUD's Section 8 Management Assessment Program (SEMAP) gives substantial weight to the extent of a PHA's utilization of the vouchers and voucher funding provided to it. For the purposes of SEMAP, a PHA's utilization rate is the higher of the share of budget authority spent or the share of units utilized during the PHA's fiscal years, excluding units under ACC for less than 1 year or reserved for litigation. An analysis of PHA fiscal year end statements indicates that the average PHA utilization rate for SEMAP purposes rose from 93.3 percent in 2000 to 94.6 percent in 2001.[3] To similar effect, the share of units administered by PHAs that meet the 95 percent threshold for acceptable SEMAP utilization rates increased from 44.6 percent in 2000 to 55.2 percent in 2001.

The SEMAP score is a weighted score of the composite of units leased and funds spent. In order to understand the composite score, it is important to look at the lease up and fund utilization separately. Unit lease up actually decreased by 1.5 percent during this period, while fund utilization increased by more than 3 percent. The increase in budget authority reflected changes made by HUD to improve leasing that resulted in a reduction in the actual number of families assisted. In order to maximize the number of units leased, HUD issued an administrative notice advising PHAs that HUD would provide additional funds to the extent necessary to allow PHAs to fully lease the units contracted with HUD.

Determination of Excess Rental Subsidies. Under HUD's rental assistance housing programs, tenants generally are required to pay 30 percent of their income towards rent, with HUD providing the balance of the rental payment. Because the amount of rental subsidies paid on behalf of a tenant is based on that tenant's income, failure of a tenant to report all income to the program administrator and failure of the program administrator to properly determine and certify tenants results in the Department paying excess rental subsidies. This issue applies to the Department's Housing Choice Vouchers, project-based Section 8 and Public Housing programs.

In support of HUD's FY 2001 financial statements, the Department developed statistical estimates of the extent of erroneous rental housing subsidy payments attributed to underreported tenant income and program processing errors by the public housing authorities, owners and agents (POAs) responsible for program administration. Estimates are based on prior year data from 2000, because this is the most recent period for which comprehensive independent sources of tenant income data are available for verification purposes.

HUD estimates of erroneous payments attributed to POA rent calculation and processing errors were based on a HUD study of "Quality Control for Rental Assistance Subsidies Determinations," which was published as a final report in June 2001. The study found that 60 percent of the calculations had some type of administrative or calculation component error contributing to a subsidy overpayment or underpayment situation. Errors were considered if they exceeded a $5 impact threshold on monthly subsidy payment amounts. The study projected, with 95 percent confidence, annual subsidy overpayments of $1.669 billion ± $251 million and annual subsidy underpayments of $634 million + $151 million that were primarily attributable to program administration error by POAs. The Department projects, with 95 percent confidence,

[3] This average is weighted by the number of voucher units at each PHA. The utilization data for 2000 is based on fiscal year-end statements from PHAs with fiscal years ending December 31, 1999; March 31, 2000; June 30, 2000; and September 30, 2000. The utilization data for 2001 is based on fiscal year-end statements from PHAs with fiscal years ending December 31, 2000; March 31, 2001; June 30, 2001; and September 30, 2001. A significant number of PHAs with fiscal years ending September 30, 2001 have not been included in the analysis of utilization rates in 2001 because their financial statements have not yet been fully processed.

HUD has developed this protocol to enable consistent reporting of changes in utilization across time. Past reports, which relied on the most recently available PHA fiscal year-end statement, did not provide the assurance of unduplicated time-series measures. In a number of cases, this new protocol has led to the calculation of new baselines.

that the amount of subsidy overpayments attributed to tenant underreporting of income was $978 million ± $247 million. Offsetting the overpayment and underpayment error estimates yields a net annual subsidy overpayment estimate of $2.013 billion, which represents approximately 10.7 percent of the $18.883 billion in total rental subsidies paid by HUD in FY 2000.

HUD is taking actions to address the causes of erroneous subsidy payments, and is instituting necessary controls to better assure that payments are made in the correct amounts, in accordance with program statutory and regulatory requirements. HUD's goal is to reduce processing errors and resulting erroneous payments 50 percent by 2005. It should be noted that the reduction of errors and improper payments may not have as significant an impact on budget outlays as anticipated. HUD's experience indicates that its efforts may have the possible effect of causing some higher income tenants to leave subsidized housing with the potential result that they would be replaced by lower income tenants requiring increased outlays. Additional information on this study is presented in Note 16 to the financial statements.

Operating Subsidies, Grants and Loans to Housing Agencies

There are an estimated 4,535 housing agencies of various types across the nation that manage HUD rental assistance programs (i.e. Housing Choice Voucher and Public and Indian Housing Programs). These HAs are primarily composed of Public Housing Agencies (PHAs) and Tribally Designated Housing Entities (TDHEs). Public Housing is the oldest federal low-income housing program. About 3,160 PHAs manage approximately 1.2 million public housing units that are homes for some 2.58 million persons (many of these PHAs also administer voucher programs). Another 1,020 HAs manage voucher programs but no public housing. In addition, approximately 355 TDHEs manage an estimated 70,000 to 80,000 housing units, but under the Native American Housing Assistance and Self Determination Act, TDHEs are not required to report to HUD. The rental income collected from residents is supplemented by federal funding to support the operating and capital needs of these units.

The Department provides funding to PHAs to support public housing through the following accounts:

- **The Operating Fund** appropriation in FY 2001 provided $3.235 billion in operating subsidies through a formula distribution to PHAs to help them to meet their operating and management expenses. These subsidies are required to bridge the gap between operating expenses and income. As a result of negotiated rulemaking, the Operating Fund formula was revised in 2001 to improve equity, increase incentives for energy conservation, encourage resident self-sufficiency, and support resident participation activities.

- **The Capital Fund** appropriation in FY 2001 provided $2.993 billion in funding to PHAs, through a formula distribution, to carry out capital and management improvement activities. PHAs use this funding to modernize and rehabilitate existing units, demolish obsolete units, relocate tenants, acquire or develop new units, implement management improvements, and support homeownership programs. In order to address the estimated $20 billion backlog of capital needs, the Department has taken steps to ensure that the appropriated funds are utilized more quickly and has developed a new legislative proposal to facilitate the private financing of capital improvements.

Units of Housing Assistance Available Under HUD's Major Programs

	1998	1999	2000	2001
Section 8 Low Income Rental Assistance Program:				
Tenant-based Assistance	1,605,898	* 1,681,774	1,837,428	1,966,171
Project-based Assistance	1,395,037	*1,386,533	1,358,797	1,343,574
Total Section 8	3,000,935	*3,068,307	3,196,225	3,309,745
Public Housing Program	1,295,437	1,273,500	1,266,980	1,219,238
Sub-total	4,296,372	*4,341,807	4,463,205	4,528,983
Other Assistance Programs				
Homeownership Assistance Program (Section 235)	52,713	43,116	26,477	17,746
Rental Housing Assistance Program (Section 236)	476,451	464,020	446,300	414,576
Rent Supplement	20,860	20,860	20,261	20,161
Sub-total	550,024	527,996	493,038	452,483
Less estimated number of households receiving more than one form of assistance (double count)	(190,140)	(190,140)	(190,140)	(190,140)
Total, Public and Assisted Housing	4,656,256	*4,679,663	4,766,103	4,791,326
CDBG Households Assisted	157,417	158,280	187,500	172,445
HOME Tenant-Based Assistance	8,246	8,246	6,899	11,756
HOME Rental Units Committed	24,148	25,114	33,487	27,456
HOME New Homebuyers Committed	29,514	30,695	30,748	29,690
HOME Existing Homeowners Committed	13,415	13,952	14,731	12,566
HOME Total Households	75,323	78,007	85,865	81,468
HOPWA Households	43,798	41,670	43,902	49,515
Total of CDBG, HOME and HOPWA	276,538	277,957	317,267	303,428

** These numbers differ from those reported in the FY 1999 Accountability Report because of a prior period adjustment to Tenant-based Assistance units and to Moderate Rehabilitation units in the Project-based Assistance number.*

HOPE VI Neighborhood Investment Partnerships

The HOPE VI Program revitalizes severely distressed public housing developments and their neighborhoods using the strategies of public-private partnerships and mixed-income housing. Public housing agencies can use HOPE VI grants for a broad range of activities: capital costs of major rehabilitation, new construction and other physical improvements; management improvements; planning and technical assistance; self-sufficiency programs for residents; and demolition of severely distressed public housing. Through HOPE VI, HUD has renewed efforts to rid neighborhoods of obsolete or distressed housing units and replace demolished units with lower-density housing. HUD also is providing tenants of these units with rental vouchers that allow them to obtain affordable private sector housing.

HOPE VI Results. During FY 2001, the HOPE VI Program revitalization grants were awarded through 16 grants in 15 cities totaling $491 million. These grants will allow housing agencies to demolish 7,923 severely distressed and obsolete units, rehabilitate 24 units and create 5,371 replacement units. This compares with 18 grants in FY 2000, totaling $513 million. The $491 million investment is expected to help generate a record $1.76 billion in additional investment in housing and jobs programs at public housing developments. In addition to the grants awarded in 2001, the HOPE VI program relocated 6,923 families, demolished 12, 375 units, completed 4,044 new and rehabilitated units, and occupied 3,579 units.

FHA Multifamily Housing Programs

FHA's Office of Multifamily Housing continued to provide financing support for rental housing and health care facilities by insuring loans and risk-sharing mortgages. In FY 2001, FHA endorsed multifamily loans totaling approximately $5.1 billion. The 14,700 mortgages currently held in the portfolio have an unpaid principal balance over $54 billion.

FHA's largest multifamily programs in terms of insurance-in-force are Sections 221(d)(4), 223(f), and 221(d)(3). FHA completed initial endorsements of 758 multifamily loans in FY 2001, exceeding the goal of 700 loans, and substantially more than the 663 endorsements in FY 2000 (performance goal 1.2.L). Of these insured mortgages, 137 were in support of HUD's mortgage restructuring activity under the Mark-to-Market program, which supplemented the usual demand for insured multifamily mortgages. The large volume masks the effect of a shortfall in available credit subsidy, which ran out in midyear. FHA's Multifamily Accelerated Processing (MAP) initiative contributed to the demand by ensuring that mortgage applications submitted by some 100 MAP approved lenders were processed promptly, predictably and consistently. Since the implementation of MAP in August 2000, approximately 850 applications have been received even though there was a shut-down of credit subsidy during the fourth quarter of 2001. Of the approximately 850 applications, upwards of 241 received firm commitments and approximately 170 went to MAP closing (principally under the Section 221(d)(4) and 232 programs).

Multifamily Housing also contributed substantially to the supply of affordable housing for special needs populations—the elderly and persons with disabilities. In FY 2001, 301 projects were brought to initial closing under the Section 202 and Section 811 programs, up from 278 in FY 2000 (performance goal 1.2.g). Capital advances for these developments will help provide housing to thousands of elderly persons and persons with disabilities.

Secretary-Held Multifamily Mortgage Notes and Property. A note is assigned to the Secretary when FHA pays a claim prior to foreclosure and takes possession of the mortgage note for servicing. Mortgage notes in default were assigned to FHA for servicing until 1996, when the program was terminated because of the high cost of servicing assigned notes. However, in FY 1999, notes were assigned to HUD that were held by borrowers who applied for the program before April 1996.

Multifamily Mortgage Notes and Multifamily Property Held by the Secretary as of September 30th
(Dollars in Billions)

	1998	1999	2000	2001
Mortgage Notes	$2.108	$2.135	$2.343	$2.247
Property	$0.376	$0.527	$0.691	$0.756

Preserving Affordable Housing Assistance

In recent years, strong local markets have increased rents in some areas, leading a number of owners of multifamily properties to prepay their assisted mortgages and/or decline to renew their Section 8 project-based assistance contracts when they expire (i.e., to "opt-out" of the program). This market pressure has caused a decline in the number of households helped with project-based assistance. To prevent tenants from being displaced when owners prepay or opt-out, HUD provides enhanced vouchers on a "one-for-one replacement basis" that allow eligible tenants to remain in these properties or move to affordable housing elsewhere. Any vouchers that are not used by current tenants remain in the locality so that the total number of assisted households in a community is not reduced by the prepayment or opt out.

Two programs are also in place to help preserve the project-based assisted housing stock, Mark-To-Market and Mark-Up-To-Market.

Mark-To-Market. Starting in 1998, HUD began implementing the "Mark-to-Market" program. Many Section 8 properties with HUD-insured mortgages have assisted rents that are much higher than comparable market rate rental properties. Rather than renew these Section 8 contracts at above-market rents with above-market subsidies, HUD reduces rents to market levels and, where needed, reduces the existing mortgage debt to levels supportable by the lower rents. In FY 2001, the Office of Multifamily Housing Assistance Restructuring (OMHAR) completed 165 rent reduction agreements, 274 full debt restructuring agreements, and an additional 168 restructuring plans that had not yet closed, for a total of 607 project actions (performance measure 1.2.n).

Through FY 2001, this effort was administered by OMHAR, which was a separate entity in HUD. Beginning in FY2002, OMHAR activities will be the responsibility of the FHA Commissioner.

Mark-Up-To-Market. Beginning in 1999, HUD implemented a complementary preservation program called "Mark-Up-To-Market" for properties with below market rents. This targeted effort offers higher rents (not to exceed the comparable market rents for the area) to owners with expiring project-based Section 8 contracts if they renew their contracts. In exchange for these higher rents, owners are required to sign 5-year project-based Section 8 renewal contracts. Because tenant payments in project-based Section 8 are fixed at 30 percent of income, tenants are not affected by the higher rents.

Ginnie Mae Multifamily Housing

During 2000, Ginnie Mae developed a new mortgage-backed security for FHA-insured multifamily mortgages that are originated in connection with the Mark-to-Market program. Beginning in FY 2001, the new MBS instrument facilitated the flow of private capital to the Mark-to-Market program.

Ginnie Mae supported FHA multifamily mortgage insurance by securitizing 100 percent of the eligible FHA-insured multifamily mortgage volume in FY 2001, as it did in FY 2000 (performance goal 1.2.j). The total volume of Multifamily MBS outstanding has increased every year since FY 1996.

Ginnie Mae Multifamily Mortgage-Backed Securities Outstanding as of September 30th
(Dollars in billions)

1998	1999	2000	2001
$14.6	$16.5	$18.7	$21.6

Delinquency in repayment of multifamily mortgages has declined in recent years because of strong economic and rental market conditions. Serious delinquencies among multifamily mortgages are defined as loans delinquent two months or more plus foreclosures. As shown below, delinquency ratios for the MBS pooled mortgages in the multifamily housing programs increased in FY 2001, following several years of decline, primarily due to weak economic conditions.

Delinquency Ratio of Ginnie Mae's MBS Multifamily Portfolio

1998	1999	2000	2001
0.78%	0.58%	0.53%	1.30%

HOME Investment Partnerships Program

HOME Investment Partnerships provide funds to State and local governments to address their affordable housing needs. HOME encourages public-private partnerships by providing incentives to for-profit and non-profit developers for production of housing for low-income households. Eligible activities include the acquisition of existing housing; reconstruction and rehabilitation of substandard housing; construction of new housing; assistance to new homebuyers; and tenant-based rental assistance. HOME is one of the few programs at HUD that continue to have an affordable housing production component.

The HOME program assists low-income families, which are defined as those with an income at or below 80 percent of the area median, and helps ensure that rents are affordable in developments receiving a HOME capital subsidy by capping them at the lesser of the fair market rent or 30 percent of 65 percent of the area median income. At least 90 percent of families receiving HOME rental assistance must have incomes in the very-low-income range, below 60 percent of area median income. During FY 2001, the HOME program exceeded this statutory target, as 97.4 percent of households receiving HOME tenant-based rental assistance or occupying HOME-assisted rental units had very low incomes.

Several management initiatives during FY 2001 helped improve the performance of HOME grantees. HUD provided training and technical assistance, including web-based assistance, to participating jurisdictions. The Department posted monthly production reports on the web and aggressively followed-up with grantees that were not meeting production goals—including deobligating funds from those that failed to meet the 24-month statutory commitment deadline. As a result, participating jurisdictions committed $1.48 billion in HOME funds during FY 2001. HOME program outlays were $1.424 billion, compared with $1.479 billion in FY 2000.

Homeownership and Rental Assistance

The HOME program provides assistance for both homeowners and renters. During FY 2001, participating jurisdictions committed 81,468 new units of HOME-assisted housing and completed production of 55,148 units (performance goals 1.2.d and 1.2.e). Units completed include 20,453 rental units produced, 24,757 new homebuyers assisted, and 9,938 existing homeowners assisted. In addition to completed production units, 11,756 households received HOME tenant-based rental assistance during FY 2001. Beginning in FY 2002, through a $50 million budget allocation, HUD is launching the American Dream Homeownership Fund as part of the HOME program. Through this program, participating jurisdictions can provide downpayment assistance to homebuyers.

Housing Opportunities for Persons With AIDS

The Housing Opportunities for Persons with AIDS (HOPWA) program provides housing assistance and related supportive services for low-income persons with HIV/AIDS and their families. Grants are provided by formula allocations to States and metropolitan areas with the largest number of cases and incidence of AIDS and also by competitive selection of projects proposed by State and local governments and nonprofit organizations. In FY 2001, 105 communities received HOPWA formula allocations. FY 2001 expenditures were nearly $270 million; HOPWA provided 49,515 units of short-term and permanent housing in connection with supportive services.

Government-Sponsored Enterprises

Government-Sponsored Enterprises (GSEs) help increase the supply of affordable rental housing. The most recent available data show that during calendar 2000, Fannie Mae and Freddie Mac substantially exceeded their HUD-established “special affordable multifamily” goals for securitization volume (performance goal 1.2.i). Fannie Mae securitized $3.79 billion of multifamily mortgages, a decrease of 7 percent from 1999 levels, while Freddie Mac did $2.40 billion of multifamily business, up 6 percent from 1999.

Strategic Objective 1.3: America’s housing is safe and disaster resistant

A long-standing objective of Federal housing policy is to assure decent housing. HUD helps improve housing quality by providing funding in the form of CDBG and HOME block grants, rehabilitation loans, capital grants and lead-paint abatement grants. The Department works with public housing agencies and private housing providers to ensure that assisted housing meets housing quality standards. HUD also regulates the manufactured housing industry and works with public and private partners to develop durable, efficient and affordable housing technology.

Housing quality has improved markedly over the past 5 decades. The most recent data from the American Housing Survey (AHS) show that the share of low-income households who live in units with one of four hazardous conditions declined from 6.2 percent in 1997 to 5.8 percent in 1999 (performance goal 1.3.2).

Housing in need of repair or rehabilitation remains a frequent problem among the lowest-income renters and owners, who frequently must settle for inadequate housing to find units they can afford. The most recent data from the AHS show that the share of very-low-income renters living in units with moderate or severe physical problems declined to 14.8 percent in 1999, down from 15.2 percent in 1997 (performance goal 1.3.1). However, the share of very-low-income homeowners with similar problems increased from 7.2 percent in 1997 to 8.1 percent in 1999, in part because a substantial number of households with very-low incomes were able to become owners of "fixer-upper" properties, but also because more families were classified as having very-low incomes as overall income growth shifted the income limits. AHS data for FY 2001 is not yet available.

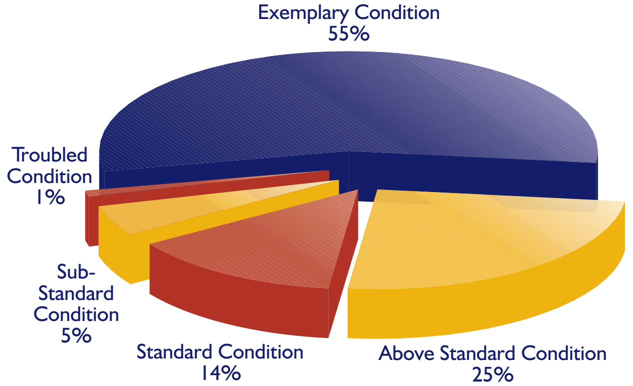
HUD-Supported Housing Quality

In September 1998, HUD published a uniform rule on physical condition standards and physical inspection requirements applicable to all HUD-supported multifamily (MF) housing and public housing stock. For the first time, HUD has baseline inspection information on the condition of the entire HUD-supported housing portfolio, and is using that information to improve living conditions for residents of that housing. Information and results from FY 2001 are provided in the following two sections.

Multifamily Insured and Assisted Housing

The results of the most recent physical inspections conducted on the MF housing portfolio provide the following profile on 28,647 insured and assisted projects with 2,531,677 housing units:

MF Housing Inspection Profile
28,647 Projects with 2,531,677 Units



On a rating scale of 100 points, projects scoring at least 60 are deemed to be in general compliance with HUD's physical condition standards. The current profile reflects that 94 percent of the MF projects are in general compliance with HUD physical condition standards, which is a substantial increase over the 87 percent that met HUD standards in the baseline profile reported last year. A comparison of the current and baseline profiles is as follows:

Project Conditions	Baseline Profile 28,038 Projects	Current Profile 28,647 Projects
Exemplary	37%	55%
Above Standard	24%	25%
Standard	26%	14%
Sub-Standard	11%	5%
Troubled	2%	1%

Based on the baseline project inspections conducted over the period 1999-2000, HUD instituted a "3-2-1" inspection policy, where projects in exemplary condition (at least 90 points) get inspected every 3 years, projects in above standard condition (80-89 points) every 2 years, and projects at or below standard condition every year. The current profile reflects the results of 10,649 new inspections that have been conducted since the reporting of the baseline profile last year. Following the "3-2-1" policy, the majority of these new inspections were on projects that had baseline scores below 80. There were some changes to the baseline physical condition standards used in 1999 that would account for modest project score increases of a few points in the current profile, but most of the increases in scores are attributed to actual improvements to project physical conditions. The significant increase in the percentage of projects scoring at least 80 in the current profile demonstrates the positive effects of a strong physical inspection program on housing conditions.

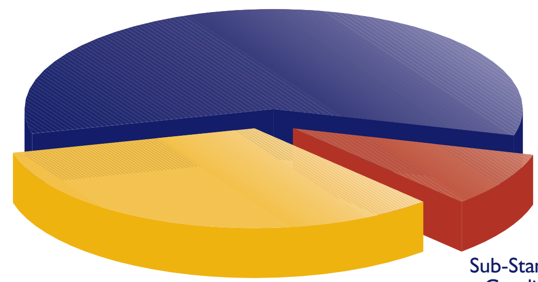
The less than 1 percent of projects that fell in the "troubled condition" (0-30 points) category were referred to HUD's Enforcement Center to better assure these more egregious conditions are appropriately addressed. For the other 5 percent of substandard performers (31-59 points) representing 6 percent of units, Office of Housing field staff follow-up to assure that Management Improvement Operating (MIO) Plans are negotiated and adhered to by project owners.

In addition, when "exigent" health and safety deficiencies are detected during HUD's on-site physical inspections, citations are issued to project owners and agents requiring corrective action and response to HUD within 3 business days. "Exigent" health and safety deficiencies are part of a larger number of "life threatening" health and safety deficiencies involving a few additional problems with fire escapes and electrical systems that are serious, but not deemed "exigent" deficiencies. The percentage of projects with any of the "life threatening" health and safety deficiencies dropped from 46 to 37 percent between the baseline and current profile. This is further evidence that HUD's physical inspection program is improving living conditions for residents of HUD-supported rental housing.

Public Housing

While the physical condition standards and on-site physical inspection requirements are the same for both public housing and MF housing, there are differences in how the information is used and acted upon, due to differences in the statutory, regulatory and contractual relationships between HUD and its respective PHA and MF project owner partners. While inspections at PHAs are conducted and scored at the project level, the results of project inspections are aggregated at the PHA level into a Pubic Housing Assessment System (PHAS) Physical Indicator score and reported as one of four components of the PHAS rule scoring process. Nevertheless, individual PHA project inspection results indicate a PHA's compliance with HUD's physical condition standards. On a 100 point scale, PHA projects scoring 90 or above are defined here as "above standard," and projects scoring below 60 as "sub-standard." The results of project inspections associated with the second cycle of PHAS scores (scores for PHAs with fiscal years ending September 30, 2000 to June 30, 2001) were as follows:

PHA Project Inspection Results
14,011 Projects with 1,238,768 Units



The following comparison of the Cycle II profile with the Cycle I profile reported last year shows a marked improvement in the overall condition of the PHA project portfolio:

Project Conditions	Cycle I Profile 13,569 Projects	Cycle II Profile 14,011 Projects
Above Standard	22%	33%
Standard	61%	58%
Sub-Standard	17%	9%

During Cycle II, HUD converted to a "2-1" inspection policy, wherein projects in PHAs with a PHAS Physical Indicator score of at least 24 out of 30 PHAS points (80 percent) are inspected every 2 years, while "standard" and "sub-standard" projects are inspected annually. Therefore, the Cycle II profile is a mix of new inspection scores on projects in PHAs with lower PHAS Physical Indicator scores (below 80 percent) from Cycle I, plus carry-over scores on projects in high scoring PHAs from Cycle I.

Overall, the percentage of projects complying with HUD's physical condition standards increased from 83 percent to 91 percent between Cycle I and Cycle II. There were some changes to the baseline physical condition standards used in 1999 that would account for modest project score increases of a few points in the current profile, but most of the increases in scores are attributed to actual improvements to project physical conditions. Many of the PHA projects failing to meet HUD's physical condition standards are larger projects, as the 9 percent of projects with sub-standard conditions represented 16 percent of the total housing units inspected. The percentage of inspected projects with “life threatening” health and safety deficiencies remained constant at 47 percent for both reporting cycles.

Office of Public and Indian Housing staff use physical inspection results to evaluate annual PHA plans to assure available resources are used to address problem projects and significant housing quality standards deficiencies. HUD looks for the number of PHA housing quality deficiencies to decrease, and inspection scores to continue to improve. HUD’s independent physical inspection process is having the desired effect of improving living conditions for residents of HUD-supported public housing.

Public Housing Demolitions. As of the end of FY 2001, the Department had demolished 73,857 distressed public housing units (performance goal 1.3.b) up 14,144 from FY 2000. Demolition activity continues to be delayed by the need for PHAs to relocate tenants and abate hazardous wastes before proceeding. HUD plans to demolish an additional 13,000 units in FY 2002 and FY 2003.

Lead Paint and Other Hazards. One of the most critical housing safety issues is the presence of lead-based paint in homes with small children. As of 1994, approximately 890,000 children under the age of 6 were estimated to have elevated blood lead levels by the Centers for Disease Control and Prevention. Older housing, which is more often occupied by lower income households, is the primary source of lead-based paint hazards. During FY 2001, outlays of $64.7 million under the Lead Hazard Control Grant Program directly supported the completion of at least 8,212 lead-safe homes, increasing the cumulative total to 36,204 (performance goal 1.3.5). Subtracting all supporting program elements such as public education, temporary relocation, blood and environmental testing and program administration, the actual per-unit hazard control costs have declined from $9,440 per unit when the program began in FY 1993 to $4,095 for FY 1999 grantees (note that grants have a 3 year duration). To leverage additional private resources for local lead hazard control programs, HUD started Operation LEAP (Lead Elimination Action Program). Beginning in FY 2002, the Department will competitively award LEAP grants to organizations that demonstrate ability to leverage even more private funding for existing local lead hazard control programs.

HUD also is addressing health hazards in the Nation’s housing stock through the Healthy Homes Initiative. Under the initiative, HUD awards grants to public and private organizations and makes agreements with other Federal agencies for evaluation studies and demonstration projects to address housing conditions responsible for diseases, such as asthma and injuries. (See performance goal 1.3.e).

In recent years, the serious destruction caused by hurricanes, earthquakes, and other natural disasters also highlights the need for housing that is as resistant as possible to such stresses. Significant amounts of disaster assistance funds have been appropriated for this purpose. Through the Partnership for Advancing Technology in Housing, HUD coordinates federal agency and private industry efforts to encourage the development and widespread diffusion of new disaster-resistant technologies throughout the housing industry. HUD also works through the CDBG program to improve local building codes and through CDBG and related housing grant programs to reduce vulnerability to floods.

Trends and Factors Affecting Strategic Goal 1

National and regional economic conditions, as well as the actions of many private and public players, exert a critical influence on increasing homeownership or achieving any of HUD's specific performance targets that measure progress toward that objective. For example, higher interest rates can reduce the number of first-time homebuyers, thus reducing the number of homes insured by FHA. Similarly, if the economy weakens and unemployment rises, fewer persons will apply for FHA loans, and FHA may experience a higher loan default rate. Conversely, *falling* interest rates might increase refinancing (as occurred from 1996 through 1998), thus reducing the share of new loans going to first-time buyers, even as their numbers rise. While greatly influenced by external factors, both FHA and the housing industry overall have maintained a high level of performance, even during weakened economic conditions.

Many external factors also affect the supply of affordable rental housing, including tax policy, local rental markets, building codes and land use regulations, State and local program decisions, and the actions of HUD's many other partners. Although rental vacancy rates nationally have been unusually high for at least 5 years, local rental markets vary in the availability of housing with rents below local fair market rents (FMRs), and many large metropolitan areas have severe shortages of units that would be affordable to extremely-low-income renters without Section 8 vouchers.

HUD's ability to provide access to affordable housing depends to a great extent on the state of the economy. Changes in unemployment rates, in the cost of developing and maintaining housing or in personal income—factors over which HUD has little control—all affect housing affordability. Because tenant-paid rents are established as a percent of income in HUD's rental assistance programs, lower incomes necessitate greater subsidies. With the number of renters with worst case needs far exceeding the number of deep subsidies available and with the pressure of welfare reform, the success of HUD's efforts in this area will be highly dependent on the ability of the economy to continue to generate jobs with decent wages.

A wide array of local factors, such as building codes and other regulations, affect the choices that builders make in constructing and rehabilitating American homes. While HUD can encourage local communities to improve and enforce building codes and regulations, and can encourage private builders and owners to improve their properties, the Department cannot mandate these changes. Increasing building density and other land use factors also have major impacts on the vulnerability to natural disasters and the magnitude of associated risk. Public awareness of hazards and of ways of reducing them is also important but often lacking.

Ensure Equal Opportunity in Housing for All Americans

In 1964 and 1968, Congress passed landmark legislation to ensure the civil rights of individuals, including the right of equal opportunity in housing. This Civil Rights Act contained two provisions related to housing:

- Title VI banned discrimination on the basis of race, color or national origin in federally assisted programs, including all HUD programs except for mortgage insurance and loan guarantee programs. It provides for HUD's investigation and remediation of discrimination complaints; and

- Title VIII, the Fair Housing Act, prohibited discrimination in the sale, rental and financing of dwellings based on race, color, religion or national origin. The law was amended in 1972 to prevent sex discrimination. Amendments in 1988 extended protections to persons with disabilities and families with children. It also required accessibility features in new multi-family dwellings.

HUD's strategic goal of ensuring equal opportunity in housing for all Americans has three objectives:

- Housing discrimination is reduced.

- Low-income people are not isolated geographically in America.

- Disparities in homeownership rates among racial and ethnic groups are reduced.

Every organization within HUD is responsible for furthering fair housing, but the primary responsibility rests on the Office of Fair Housing and Equal Opportunity (FHEO). FHEO has primary responsibility for investigating, conciliating and issuing determinations in cases involving discrimination. These goals are carried out through several means:

- Reducing discrimination in housing through aggressive enforcement of civil rights and fair housing laws, promoting substantial equivalency certification among State and local governments enforcing fair housing laws, and the administration of fair housing grant programs;

- Promoting geographic mobility for minority and low-income households;

- Requiring communities to integrate fair housing planning into Consolidated Plans, Public Housing Agency Plans identifying impediments to housing choice that affect results achieved with HUD formula grants, Capital Funds and HOPE VI; and

- Ensuring that other Federal agency programs that affect housing choice also further the goals of the Fair Housing Act.

Strategic Objective 2.1: Housing discrimination is reduced

Fair Housing Enforcement Under Title VIII

Despite the long-standing protections of the Fair Housing Act, studies on the incidence of housing discrimination conducted in 1978 and 1989 showed that alarming levels of illegal discrimination persisted. In FY 2001, HUD completed the first phase of the Housing Discrimination Study, the results of which will be released during 2002. The Department also has studied the extent of public knowledge of fair housing law to shed light on the factors that contribute to discrimination. To test public awareness of and support for fair housing law, HUD sponsored a fair housing awareness survey of a representative random sample of the American public. Although the survey found that there is widespread knowledge of the fair housing law, some areas of the law are still unclear to the public (performance goal 2.1.3). The report lends credence to the Department's efforts to reduce housing discrimination but also indicates areas in which public information and attention need to be directed.

Enforcement Efforts. In FY 2001, FHEO completed 623 enforcement actions, a reduction from the FY 2000 level of 725. A large part of the reason for the decline is that resources were reallocated to deal with a backlog of aged cases. State and local government agencies become HUD partners and automatically qualify for funding under the Fair Housing Assistance Program (FHAP) when they administer fair housing laws that HUD determines to be substantially equivalent to the Federal Fair Housing Act. During FY 2001, 7,872 cases were received, compared with 11,211 cases in FY 2000. The number of cases that HUD receives depends on the number of complaints. Changes from year to year do not necessarily reflect long-term changes, but HUD will monitor the level of new cases to ensure that fair housing groups and the general population have adequate awareness of fair housing laws and are able to file complaints when appropriate. Since FY 1996, the number of "cases received" has included a new category of "claims." A claim is a discrimination inquiry that raises issues of discrimination, but may not satisfy the statutory threshold to become a complaint under HUD jurisdiction when fully developed.

During FY 2001, FHEO and substantially equivalent state and local agencies closed 9,082 cases, compared with 10,589 closed in FY 2000. This decline is due mostly to the fact that fewer cases were received and closed in 2001 than in 2000.

In FY 2001, FHEO placed a major emphasis on reducing the number of aged cases within its inventory. Strict controls were put in place and a more aggressive target was established to take immediate action in reducing aged case backlog. Resources were also reallocated to deal with the backlog. As a result, the percentage of closed cases that had been open longer than 100 days declined from 82.0 percent in FY 2000 to 37.1 percent in FY 2001.

Closures of fair housing cases include administrative closures, conciliation/settlements and no-cause determinations, as well as cause determinations (investigative completions) and transfers of complaints to the Department of Justice (DOJ). (Certain categories of complaints, specifically those related to zoning and those involving criminal activity are statutorily required to be transferred to DOJ.) Some closures involve cases pending from previous years. During FY 2001, FHEO made a concerted effort to increase the number of complaint closures made by consensual resolution; as a result, 48 percent of complaint closures were by consensual resolution, compared with 37 percent in FY 2000.

Fair Housing Grants

In addition to its own enforcement activities, HUD has two main grant programs that fund fair housing enforcement and education activities: the Fair Housing Initiatives Program (FHIP) and the Fair Housing Assistance Program (FHAP). FHIP helps meet the objectives of the Fair Housing Act by providing funding to public and private entities carrying out programs to prevent or eliminate discriminatory housing practices. FHAP provides funds to state and local agencies that enforce fair housing laws that are substantially equivalent to the Federal Fair Housing Act. FHAP funds include money for agency capacity building, complaint processing, administrative and training costs, special enforcement efforts, and fair housing partnerships.

In FY 2001, 36 organizations were awarded 12-month Private Enforcement Initiative grants under FHIP to support efforts to investigate allegations of discriminatory practices. Two grants were awarded to fair housing organizations to provide comprehensive services in underserved communities, which included ethnic and language minorities, recently arrived immigrants, migrant and seasonal farm workers, and rural populations.

In FY 2001, the number of agencies certified as enforcing substantially equivalent fair housing laws and eligible for participation in FHAP increased by five, from 89 to 94 (performance goal 2.1.c) The increase represents progress in the Department's effort to build coordinated intergovernmental enforcement of fair housing laws and to allow States and localities to assume greater responsibility for administering fair housing laws.

Accessibility Provisions of the Fair Housing Act

Amendments to the Fair Housing Act have expanded protections for persons with disabilities by requiring that certain multifamily dwellings first occupied after March 13, 1991, be accessible. Nevertheless, multifamily dwellings are being constructed across the nation in violation of the design and construction requirements of the Fair Housing Act. A significant effort is needed to educate the building industry¾including architects, builders and owners¾as well as State and local governments and others about accessibility requirements in order to improve compliance with the Fair Housing Act. In FY 2001, a $1.0 million contract was awarded to carry out the training and technical assistance program for this purpose.

Fair Housing Enforcement Under Title VI and Other Laws

Compliance Reviews and Voluntary Compliance Agreements. Title VI and Section 504 of the Rehabilitation Act of 1973 require that HUD conduct compliance reviews of grant recipients. When grantees are found to be in non-compliance with the relevant laws, HUD must take appropriate action to obtain compliance by securing a voluntary compliance agreement. If the recipient fails to comply by voluntary means, then HUD may suspend or terminate funds and/or refer the recipient to the Department of Justice for enforcement.

FHEO executed 20 Voluntary Compliance Agreements (VCAs) under the above statutes for FY 2001, double that of FY 2000.

FHEO conducted 66 compliance reviews in FY 2001 under Title VI of the Civil Rights Act of 1964, Title II of the Americans with Disabilities Act of 1990 and Section 504 of the Rehabilitation Act of 1973. The FY 2001 accomplishments increased over 50 percent above the 43 reviews that FHEO conducted in FY 2000. Focused compliance reviews increase awareness and understanding of the above laws, thus increasing the probability and quality of compliance.

Complaints Investigated. FHEO investigated 860 complaints under the above statutes in FY 2001, a 16 percent increase over the 740 complaints investigated in FY 2000. FHEO continues to work with recipients of HUD funds to ensure compliance with the civil rights laws.

Architectural Barriers Act complaints. FHEO processed one Architectural Barriers Act (ABA) complaint in FY 2001, compared with two in FY 2000. The number of complaints the Architectural and Transportation Barriers Compliance Board (ATBCB) refers for processing drives the number of complaints that HUD processes under ABA. HUD resolves non-compliance findings under the ABA when they are concurrently processed under Section 504 through Voluntary Compliance Agreements.

Strategic Objective 2.2: Low-income people are not isolated geographically in America

The isolation of America's minorities and poor in distressed neighborhoods has increased in recent decades. When neighborhoods lose the amenities and conditions that sustain mixed-income and integrated communities, middle-income families may leave to protect their own interests and businesses have difficulty becoming reestablished. Neighborhoods with extreme poverty concentrations have difficulty meeting the needs of children and can have harmful influences on children who grow up there.

Revitalization. HUD helps revitalize distressed neighborhoods into mixed-income communities by helping to make them attractive to families with diverse economic circumstances and to create employment opportunities for the unemployed. The Community Development Block Grant and HOME Investment Partnerships programs allow communities to identify the needs of low- and moderate-income families and persons with disabilities and use funds flexibly to meet those needs.

Public housing has been both a cause and a victim of concentrated poverty and concentrations of minorities in American cities. A 1994 assessment of the location and racial composition of public housing showed that minority residents typically were segregated in predominantly minority and high-poverty neighborhoods. HUD is reversing decades of ill-conceived policy and practice by redeveloping distressed public housing and neighborhoods into mixed-income communities through the HOPE VI program.

Poverty Deconcentration in Public Housing. Following findings of discriminatory admissions patterns by Public Housing Agencies (PHAs), HUD increased Title VI enforcement. HUD also has taken steps to promote income diversity in general-occupancy public housing developments. In 2000, the Department published a proposed rule under the Quality Housing and Work Responsibility Act for deconcentrating public housing buildings and developments. This rule seeks to reduce concentrations of the poorest families in particular housing developments.

Deconcentration with Housing Choice Vouchers. One of HUD's best tools for dispersing concentrations of poverty and promoting integration is to encourage households assisted with the tenant-based Housing Choice Vouchers, especially families with children, to use their vouchers to move to neighborhoods outside areas of concentrated poverty. The initial findings of an ongoing study of the Moving To Opportunity for Fair Housing Demonstration (MTO) indicate that helping families move from highly concentrated areas of poverty with Housing Choice Voucher leads to wider opportunities, especially for the families with children.

The potential of tenant-based assistance for deconcentrating poverty is clear but has not yet been sufficiently realized. In FY 2001, the share of tenant-based families with children who lived in low-poverty neighborhoods, defined as census tracts with poverty rates below 20 percent, remained at 59 percent. (performance goal 2.2.2). In FY 2002, under the Housing Search Assistance Program, $10.0 million has been awarded to 11 PHAs and their non-profit partners, including faith-based grass-root organizations, to assist families to move from high-poverty neighborhoods to low-poverty neighborhoods.

Strategic Objective 2.3: Disparities in homeownership rates among racial and ethnic groups are reduced

Homeownership in the United States has many corollary benefits such as asset accumulation, tax advantages, neighborhood stability and stronger school systems. Homeownership has even been linked to better outcomes for children in terms of school achievement, dropout rates and other related dimensions.

Although different demographic groups may have different preferences for homeownership compared with rental housing, closing the gap in homeownership rates among these groups in many ways demonstrates that America is providing equal opportunity. The homeownership rate for minorities in the fourth quarter of FY 2001 was 49.2 percent—a record high, yet some 25.4 percentage points below the homeownership rate of 74.6 percent for non-minority households.

In order to promote homeownership among minorities, HUD employs a number of programs:

- The American Dream Downpayment Fund will provide grants to help make homeownership affordable to low-income families, including families in public and assisted housing.
- Section 8 homeownership vouchers can be used by families to cover the ongoing costs of a mortgage. Also, recent legislation allows families to use up to 1 year's worth of Section 8 assistance for the downpayment on a home.
- Housing Counseling helps minorities and other underserved groups move into homeownership and meet ongoing homeownership responsibilities.

Fair Lending. One of HUD's primary means for increasing the homeownership rates of minorities is to ensure equal access to mortgage lending. The most recent data collected from lenders under the Home Mortgage Disclosure Act show that in 2001, minority applicants (excluding Asian-Americans, whose denial rates differ little from non-minorities) were denied mortgages at a rate 76.4 percent higher than the denial rate for non-minority applicants (performance goal 2.3.2). This rate is slightly lower than the difference of 77.3 percent in 2000, although the apparent change may not be statistically significant. A substantial portion of the difference in denial rates between minority and non-minority applicants can be explained by finance- and credit-related attributes of the applicants. To improve results in this area, HUD will promote the Technology Open To All Lenders (TOTAL) scorecard. When used in an automated underwriting system, the TOTAL scoring system will ensure that mortgage applications are evaluated fairly and uniformly.

In addition to enforcing fair lending law through FHEO, HUD regulates the government-sponsored enterprises (GSEs)—Fannie Mae and Freddie Mac—and continually monitors their programs and practices to ensure consistency with fair lending requirements. Under the authority of the Federal Housing Enterprises Safety and Soundness Act, HUD seeks to ensure that the GSEs' underwriting guidelines, including their automated underwriting systems for determining creditworthiness, treat minorities and other protected classes fairly. These guidelines and systems have an enormous impact on the availability of credit for all mortgage applicants. HUD also has established geographic targets for GSE mortgage purchases in underserved areas, which include areas with above-average shares of minority households. In Calendar Year 2000, 31.0 percent of Fannie Mae mortgage purchases and 29.2 percent of Freddie Mac mortgage purchases were for properties in underserved neighborhoods (performance goal 4.2.b). Both levels continue an upward trend. Beginning in 2001, the goal for GSEs will be 31 percent.

Targeted efforts. HUD aims to increase the share of FHA single-family mortgage endorsements that go to minority homebuyers. Along with comparable goals for first-time homebuyers and central-city homebuyers—both disproportionately minority groups—this focus ensures that minority homebuyers have access to the lower interest rates of FHA-insured mortgages. In FY 2001, 36.5 percent of FHA home-purchase mortgage endorsements were for minority homebuyers, a decline from 41.7 percent in FY 2000 (performance goal 2.3.a).

Ginnie Mae's Targeted Lending Initiative has expanded to include Indian lands and new Empowerment Zones and Enterprise Communities in both urban and rural areas. The initiative supports more competitive mortgage interest rates for properties in these areas by reducing the guaranty fee for eligible home mortgage loans. By increasing lender activity in these targeted areas, Ginnie Mae provides underserved families and households, including many minority households, with increased opportunities to achieve homeownership.

Two programs, Indian Housing Block Grants and the Section 184 Indian Home Loan Guarantee program, likewise promote minority homeownership by serving Native American communities where severe housing shortages continue. A variety of other HUD programs that benefit urban or low- and moderate-income homeowners similarly contribute to increases in minority homeownership. These programs include HOME, CDBG, and Section 8 homeownership vouchers, as well as homeowner education efforts.

Trends and Factors Affecting Strategic Goal 2

Social, cultural and economic conditions influence the acceptance of minorities, persons with disabilities and other protected classes. In addition, disparities in wealth and income levels among groups contribute to the inability of some persons to purchase a home, obtain affordable and/or accessible rental housing, and realize economic opportunity.

HUD depends upon the Department of Justice as well as state and local government partners to assist in furthering fair housing. State legislation that is substantially equivalent to the Federal Fair Housing Act is critical to increase the Nation's capacity to effectively enforce fair housing laws. State regulation of finance, insurance and real estate also affects fair housing and homeownership within specific populations or neighborhoods.

Local policies, including land use controls and accessible building code enforcement, will continue to influence levels of discrimination, income isolation, and disparities in homeownership rates. The private sector likewise plays a central role in achieving fair housing outcomes. Businesses which adopt fair housing policies and practices go far to promote justice. Finally, some individuals continue to discriminate because they lack awareness of their fair housing responsibilities.

Strategic Goal 3: Promote Self-Sufficiency of and Asset Development by Families and Individuals

Stable, affordable housing promotes the health of families and communities. It supports self-sufficiency, the educational achievement of children, and treatment and services for persons with disabilities. Increased self-sufficiency and asset development improve the housing security of families by providing adequate income and a financial cushion in times of emergency. The relationship between housing and self-sufficiency is the focal point of HUD's efforts under this goal.

In FY 2001, HUD had the following objectives related to these outcomes:

- Homeless families and individuals become self-sufficient.
- Poor and disadvantaged families and individuals become self-sufficient and develop assets.

Strategic Objective 3.1: Homeless families and individuals become self-sufficient

As economic conditions have worsened, the need for housing resources has become greater. The U.S. Conference of Mayors reports that in 2001, demand for emergency shelter increased by 13 percent overall—and 22 percent among families—in the 27 major cities that were surveyed. Furthermore, 37 percent of the overall need and 52 percent of the need among families was unmet.

Addressing homelessness requires a comprehensive approach. Data from a December 1999 HUD report entitled *Homelessness: Programs and the People They Serve* demonstrate that most people who become homeless have suffered severe hardships—including physical and sexual abuse, childhood trauma, poverty, poor education, disability, and disease. When homeless persons get the housing assistance and needed services—such as health care, substance abuse treatment, mental health services, education and job training—76 percent of those living in families and 60 percent of those living alone end their homeless status and move to an improved living situation.

Continuum of Care

HUD has a history of providing support to homeless individuals and families. The McKinney-Vento Homeless Assistance Act of 1987 authorized HUD to operate several programs that help homeless individuals and families move to permanent housing. More recently, HUD and communities have partnered to employ a Continuum of Care (CoC) approach to addressing homelessness. This strategy is used by communities nationwide to organize and coordinate delivery of housing and services to homeless persons as they move off the streets, into stable housing, and towards self-sufficiency.

The needs of homeless persons vary; some need extensive and ongoing supportive services while others need only affordable housing with minimal services. The CoC process encourages public and private organizations to work together to identify the unique needs in their communities, seek alternative resources, and determine their priorities for HUD funding. In 2001, communities representing 89.6 percent of the Nation's population have come together in this manner, up from 88.2 percent in 2000 (performance goal 3.1.a).

The ultimate objective of Homeless assistance is to help homeless families and individuals achieve permanent housing and an appropriate level of self-sufficiency. During FY 2001, HUD helped approximately 30,000 formerly homeless persons move into HUD McKinney-Vento funded permanent housing (performance goal 3.1.2).

The number of formerly homeless persons who move to HUD funded permanent housing is a result of demand by communities for new permanent housing assistance and a Congressional directive and HUD commitment that 30 percent of homeless funds be used for permanent housing projects for persons with disabilities.

Transitional housing with supportive services can be an important intermediary step between emergency shelter and permanent housing. In 2001, HUD funded 5,020 new transitional beds linked to supportive services (performance goal 3.1.c), in addition to funding a substantial number of renewals projects.

Through the CoC, HUD also funded many supportive–services-only projects, including job training and mental health and substance abuse counseling. HUD also provided $150 million outside of the CoC process for emergency shelters across the Nation.

To streamline the provision of homeless assistance services, HUD will propose to consolidate several homeless assistance programs into a single program in FY 2003. This change will reduce the administrative burden associated with the current application process and provide communities with the flexibility they need to appropriately address homelessness.

In FY 2003, HUD is proposing to take over the Emergency Food and Shelter Program that has been operated by the Federal Emergency Management Agency. Locating this program in HUD will improve coordination between the various homeless assistance programs.

Beginning in FY 2001, HUD has been undertaking a Department-wide effort to increase the participation of faith-based and community organizations in HUD's programs. Increasing the already high level of participation of these groups in HUD's homeless assistance programs will introduce more partners in the overall effort to address homelessness.

A significant challenge in managing homeless assistance programs is the lack of detailed information about how people become homeless and what programs are most effective at helping them. To shed light on this issue, HUD is helping to develop the capacity of homeless providers to collect unduplicated client-level data. Analyzing details and trends affecting homeless people and programs will enable communities to target resources to the most effective methods of preventing and ending homelessness. As of FY 2001, 12 communities have implemented Homeless Management Information Systems that cover at least 75 percent of the homeless people served in their communities.

The Department expects that level to increase significantly in 2002, 2003, and 2004. Beginning in FY 2002, HUD will track the number of such systems and eventually obtain highly detailed information about the source of homelessness, and the programs and policies that alleviate homelessness.

Strategic Objective 3.2: Poor and disadvantaged families and individuals become self-sufficient and develop assets

Increasing self-sufficiency requires a multidimensional strategy that helps people improve their skills, increases the supply of jobs, facilitates job searching, and provides supportive services.

HUD's role in welfare reform stems from the significant overlap of families served by welfare and those served by HUD's programs. For example, at the beginning of FY 2001, there were over a quarter of a million families with children living in public housing or Section 8 housing whose primary source of income was welfare.

Public Housing

Over the past several years, HUD has been transforming public housing to reduce the geographic and economic isolation of low-income households. The HOPE VI program described under Objective 1.2 has rebuilt thousands of public housing units into mixed-income communities that are integrated with training and employment opportunities.

HUD also provides funding for microenterprise and small business development for public housing residents with an entrepreneurial spirit. In addition, Public Housing Authorities (PHAs) adjust their rent policies to reduce the financial disincentives to increasing a household's earnings. The escrow accounts established in the Family Self-Sufficiency (FSS) program also support asset development.

Between September 2000 and May 2001, 13.2 percent of families who lived in public housing moved from welfare to work. (performance goal 3.2.4). If extrapolated to cover a 12-month period, the level would be 19.9 percent, which is well below the 28 percent of households who made such a transition in FY 1999. A strong economy helped boost performance during the late 90's, but the recent economic slowdown has reduced the number of opportunities for public housing residents to become self-sufficient.

Section 8 Assistance

Tenant-based assistance provides households with flexibility to live close to employment opportunities and social supports. Project-based assistance increases the availability of affordable rental housing. Recipients of Section 8 assistance are also eligible for job training and employment services under the Family Self Sufficiency (FSS) program.

Between September 2000 and May 2001, 17.3 percent of families who lived in tenant-based Section 8 housing moved from welfare to work. (performance goal 3.2.5). If extrapolated to cover a 12-month period, the level would be 26.0 percent, which is below the 27.5 percent of households who made such a transition in FY 1999. The economic slowdown was again a major reason for the reduction.

During FY 2001, 22 percent of families residing in project-based Section 8 housing moved from welfare to work (performance goal 3.2.5.5). Since this is the first year HUD has used this measure, there is no prior level for comparison.

To improve the level of self-sufficiency in public and assisted housing, HUD will be increasing resident participation in the FSS program. FSS provides service coordinators to help residents of public and assisted housing transition to self-sufficiency. FSS also allows a portion of increased earnings to be deposited into an escrow account that can be used for purchasing a home, continuing education, or other personal goals.

HUD is also increasing the number of Neighborhood Networks in public and assisted housing, and is devoting $15 million in the FY 2003 budget proposal for this effort. There are currently over 800 Neighborhood Networks, which are computer centers located in public housing and assisted housing apartment complexes. These centers provide training and access to the Internet so that families can develop technical skills and access high tech job opportunities.

In addition to improving self-sufficiency, HUD is promoting homeownership among residents of public and assisted housing. The American Dream Downpayment Fund will provide grants to help make homeownership affordable to low-income families, including families in public and assisted housing. Increasing homeownership will provide an opportunity for such families to accumulate assets as the value of their homes increase.

Welfare to Work Vouchers

In FY 1999, Congress appropriated 50,000 Welfare to Work (WtW) vouchers that require coordination between local housing authorities and welfare agencies. Because stable housing is so critical for steady employment, and because many jobs are located in suburbs while the people leaving welfare are in central cities, these vouchers are an important tool in promoting self-sufficiency.

After an initial period of slow issuance and lease-up, HUD stepped up technical assistance and oversight efforts. By the end of FY 2000, 32 percent of WtW vouchers had been leased up. By the end of FY 2001, all WtW vouchers had been issued and 90 percent had been leased (performance goal 3.2.a).

To achieve this level, HUD has worked with the WtW PHAs to build PHA staff capacity, help them strengthen partnerships with service agencies and more effectively market the program to landlords. HUD has also taken steps to increase the Fair Market Rents/Payment Standards in high cost areas so that more units will be available to families, which will help families move closer to areas of job growth and deconcentrate poverty.

Efforts to further improve WtW voucher utilization dovetail with the overall effort to improve voucher utilization that is described under Objective 1.2.

Community and Economic Development

Increasing self-sufficiency requires investments in job training, economic development, supportive services, and other infrastructure needs. HUD's Community Development Block Grants (CDBG) provide a mechanism for making these investments while recognizing the unique needs of every community. Furthermore, the Empowerment Zones program (EZ) targets flexible assistance to the most distressed communities. Among the many eligible uses of the CDBG and EZ program related to self-sufficiency are:

- Job Training, including the Youthbuild program;
- Supportive services, including health care, transportation, and child care;
- Education assistance; and
- Job Fairs.

Trends and Factors Affecting Strategic Goal 3

Success in aiding the homeless to become self-sufficient is affected by a variety of factors beyond HUD's control. The incidence of homelessness is affected by macroeconomic forces such as unemployment levels, structural factors, including the supply of entry-level jobs, and the availability of low-cost housing. Personal factors such as domestic violence, substance abuse, disabilities, and the extent of a person's educational or job skills also may underlie homelessness.

Participation levels by partners in the provision of homeless assistance—including State and local agencies, nonprofit organizations, service providers, housing developers, neighborhood groups, private foundations, the banking community, local businesses, and current and former homeless persons—will substantially determine the success of homeless families and individuals in becoming more self-sufficient. State and local governments also make critical decisions about zoning and the use of funds from programs such as CDBG, HOME, and tax-exempt bonds for rental housing, which may affect the local housing supply.

The recent economic downturn has led to increased unemployment, which hampers self-sufficiency efforts. Recessions tend to affect homeless people and other low-income people disproportionately, because they are usually among the first to be laid off, and generally have few marketable skills. An economic rebound will make it easier for many low-skilled or inexperienced workers to enter the workforce in the coming years.

Opportunities for better paying jobs continue to be concentrated in technical fields for which many recipients of HUD assistance are not prepared. Jobs continue to grow faster in suburban areas, while families making the transition from welfare are more likely to live in inner-city or rural areas. Many of the educational, training, and service programs available to help families make the transition to self-sufficiency are operated by local recipients of Federal funds from agencies other than HUD.

Strategic Goal 4: Improve Community Quality of Life and Economic Vitality

In 2001, the unemployment rate increased from its previous level, which was a 30-year low. Concentrations of poverty and joblessness continue to degrade the social and economic fabric of communities across the country. A key to reviving these markets is expanding access to private equity investment in business and industries that serve these communities. The Nation's economic challenges are not confined to the cities and suburbs in metropolitan areas. Many rural communities are struggling as well—especially in Appalachia, the Mississippi Delta, Indian country and the borderland colonias.

In FY 2001, HUD had the following objectives related to these outcomes:

- The number, quality and accessibility of jobs increase in urban and rural communities.
- Disparities in well-being among neighborhoods and within metropolitan areas are reduced.
- Communities are safe.

Doubly Burdened Cities

One measure that captures changing conditions in urban areas is the number of "doubly burdened" cities. Doubly burdened cities are defined by HUD as cities that experience unemployment rates 50 percent above the national average, accompanied by either a population loss of 5 percent since 1980 or poverty rates of 20 percent or higher. The combined effects of population loss, high unemployment, and high poverty drain a city's fiscal capacity and limit its ability to improve aging infrastructure and invest in new economic opportunities. In 2001, 75 cities were doubly burdened, an increase of eight cities from the 67 in 2000. Reversing this decline will require a continuing and comprehensive investment in infrastructure, affordable homeownership and rental housing, and economic development.

Block Grant Assistance

The Community Development Block Grant (CDBG) is HUD's largest block grant program, and an important vehicle for improving the community quality of life and economic vitality. In FY 2001, CDBG outlays for States and more that 1,000 cities entitled to receive CDBG grants were $4.96 billion, a decrease of $16 million from FY 2000 outlays. Grantees have discretion to use this funding for a variety of eligible purposes including economic development, housing construction and rehabilitation, and infrastructure improvements. Several small categorical programs—Youthbuild, Resident Opportunities and Supportive Services, the Self-Help Opportunities Program and others—are also included in the CDBG total.

CDBG formula grantees are required to use at least 70 percent of this funding for activities that principally benefit low- and moderate-income persons. In FY 2001 they significantly exceeded this threshold. Cities used 94.9 percent of funds and States used 96.4 percent of funds for activities that principally benefit low- and moderate-income households (performance goals 4.2.d & 4.2.e).

The Department also measures the percentage of direct beneficiaries of CDBG assistance who have low incomes (below 50 percent of area median income). Direct beneficiary activities include job creation and retention and the provision and rehabilitation of housing. In FY 2001 this level was 51.0 percent, a decrease from the 2000 level of 62.7 percent (performance goal 4.2.f).

In 1994, HUD implemented the Consolidated Planning process to allow for the diverse needs of grantees and streamline access to four of HUD's formula block grant funding sources: CDBG, HOME Investment Partnerships, Housing Opportunities for Persons with AIDS (HOPWA) and Emergency Shelter Grants. Consolidated planning requires that every large city, urban county, and State develop a 3- to 5-year strategic plan, and annually produce action plans to describe how they will use funds in that year to meet their priorities. The planning process allows members of the community to be involved in allocating resources, and it provides HUD with a way to review grantees' funding decisions in the context of their needs. During FY 2002, HUD is considering a variety of options for further streamlining the Consolidated Plan requirements.

Strategic Objective 4.1: The number, quality and accessibility of jobs increase in low-income urban and rural communities

While the problems confronting struggling communities cannot be reduced to merely economic terms, increasing the number and quality of jobs plays a crucial part of any solution. Employment enables a working adult to purchase and maintain a home, better provide for his or her family, gain self-esteem, offer a positive role model for the next generation, invest in their community, and support local merchants. Moreover, strong, diverse, local economies are better able to handle the shocks and challenges of a changing global marketplace.

Communities use HUD funds for a variety of economic needs including:

- Physical development projects such as housing, roads, sewers and other infrastructure that make the community more attractive to businesses for investment and job creation.
- Loans and other financial assistance that go directly to businesses to create or retain jobs.
- Education, job-training and other services that improve the quality of the workforce in low-income communities to make the area more attractive to prospective employers.

Reducing poverty in central cities is one measure of HUD's progress towards improving the quality and accessibility of jobs, because that is where HUD has historically invested a great deal of economic development resources. In 2000, the most recent year for which data are available from the Current Population Survey, the poverty rate in central cities was 16.1 percent, a decrease from the 1999 level. Central cities failed to match the improvement in suburban areas, where poverty rates decreased from 8.3 percent in 1999 to 7.8 percent in 2000.

Poverty Rates In Central Cities

1997	1998	1999	2000
18.8%	18.5%	16.4%	16.1%

Consequently, the ratio of central city to suburban poverty increased from 1.98 in 1999 to 2.06 in 2000 (performance goal 4.1.4).

To capture the quality of the job market for entry level workers, HUD tracks the unemployment rate of young, entry-level jobseekers in central cities. The Bureau of Labor Statistics reports that in 2001, this rate improved substantially to 12.9 percent, from 16.4 percent in 2000 (performance goal 3.2.7/ 4.1.5). This decrease means that the percentage of young adults who are unemployed continued to shrink, but at an accelerated rate during 2001. This improvement was driven primarily by macroeconomic conditions, but also by improvements in central city economies supported by HUD programs.

Community Development Block Grants and Section 108 Loan Guarantees

HUD's primary investment tools for job creation and retention are the Community Development Block Grants (CDBG) and the Section 108 Loan Guarantee program. CDBG provides flexible block grant funding to states and metropolitan areas to meet a variety of housing, infrastructure, and economic development needs. Section 108 provides guaranteed loans to communities for economic development activities. In FY 2001, the 116,777 jobs created by CDBG and the 26,629 estimated jobs created by Section 108 yielded a combined total of 143,406 jobs created or retained (performance goal 4.1.e). This is a reduction from the FY 2000 level of 150,200 jobs.

Strategic Objective 4.2: Disparities in well being among neighborhoods and within metropolitan areas are reduced

Despite recent economic and social gains, many central cities and their residents remain disadvantaged. Higher levels of poverty and unemployment and decaying infrastructure induce middle class residents and businesses to leave struggling communities, which fuels further decline. While this scenario frequently has occurred in inner-city neighborhoods, it is beginning to affect older inner-ring suburbs as well.

Residents ultimately are best able to assess the quality and well-being of their own neighborhoods. Data from the 1999 American Housing Survey (the most recent available) show that low- and moderate-income residents had an improved opinion of their neighborhood (performance goal 4.2.4). Among people living in cities, 65.8 percent had a good opinion of their neighborhood (between 7 and 10 on a scale of 1-10). This is a 1.2 percentage point increase from 1997. Meanwhile, 78.1 percent of suburban residents had a good opinion, a 0.7 percentage point increase. There was no change in the opinion of residents in non-metropolitan areas, 79.5 percent of whom had a good opinion.[1]

Percentage of Residents with a Good Opinion of their Neighborhoods

	1997	1999
Central City	64.6%	65.8%
Suburb	77.4%	78.1%
Non-Metropolitan	79.5%	79.5%

Reflecting improvements in neighborhood conditions, the homeownership rate in central cities continued to increase in 2001, reaching 52.3 percent in the third quarter, compared with 51.9 percent in 2000. There are a number of economic and programmatic factors contributing to these improvements, including:

- Improved housing conditions supported by the CDBG, HOME investment partnerships, HOPE VI revitalization, public housing, and FHA programs.
- Improved economic conditions supported by the CDBG, Section 108, and Empowerment Zones programs.

Empowerment Zones/ Enterprise Communities

In 1994, 72 distressed urban communities across the country were designated as empowerment zones (EZs) or enterprise communities (ECs). In 1999, an additional 15 urban EZs were designated. The purpose of the EZ/EC initiative is to combine "seed" grants—for capacity building, workforce and business development, supportive services, and physical improvements—with tax incentives to encourage partnerships between the residents, nonprofits, governments, and businesses in a community. The EZ/EC Initiative is focused on the creation of self-sustaining, long-term development in distressed areas. It is based on a holistic, participatory approach whereby community stakeholders partner together to develop and implement innovative and comprehensive strategic plans for revitalization. HUD measures the percentage of completed EZ/EC programs and projects for which locally-defined goals in seven categories were achieved (performance goal 4.1.a). During FY 2001, local performance improved in only three of the seven categories of activity. Because the EZ/EC program has experienced slower obligation and expenditure rates, additional funding was not requested in FY 2003.

Percentage of EZ/ECs Meeting Locally-Defined Goals

Category	2000[2]	2001
Residents receiving homeownership assistance	81%	87%
New affordable housing completed	91%	88%
Rehabilitated affordable housing completed	88%	85%
Homeless residents served by homeless assistance programs	83%	88%
Residents served by social service programs	73%	86%
Residents find gainful employment	69%	64%
Residents served by public safety and crime prevention programs	91%	83%

[1] *Data from the 2001 American Housing Survey are not currently available, but will be reported in the FY 2002 Performance and Accountability Report.*

[2] *Values for FY 2000 have been adjusted slightly from what was reported in the FY 2000 Performance and Accountability Report. For a discussion, see indicator 4.2.b.5 in the Performance Information section of this report.*

The primary role of HUD's EZ/EC Initiative Office is to assist communities in the implementation of their plans. In that capacity, HUD staff work on a daily basis with EZ/EC directors, business persons, board members, citizens, non-profit organizations and others by providing program guidance and technical assistance. Managers of the EZ/EC Initiative Office have used the above data to target communities in need of technical assistance and to identify best practices that serve as models for other communities.

In December 2001, HUD designated 40 renewal communities (RCs) that will receive tax incentives for economic development. Performance for the RCs will be tracked beginning in FY 2003.

Leveraging Private Capital

The future prospects for many distressed communities are contingent on the amount of capital being invested today. HUD's programs, in addition to providing direct investment, are also a tool for leveraging other sources of public and private capital. In 2000, the latest year for which data are available from lenders under the Home Mortgage Disclosure Act, $5.339 billion of private capital was used to rehabilitate housing in underserved neighborhoods (performance goal 4.2.5). This was a significant decrease from the record activity of 1999.

Private Lending for Housing Rehabilitation in Underserved Areas
(Dollars in Billions)

1997	1998	1999	2000
$5.346	$5.737	$6.078	$5.862

FHA Lending

HUD also promotes investment by insuring loans for homeowners and multifamily housing developers. During FY 2001, FHA endorsed 412,192 mortgages in underserved areas, up from 357,059 in FY 2000 (performance goal 4.2.a).

FHA Single Family Mortgage Endorsements In Underserved Areas
(Numbers in Thousands)

FY 1998	FY 1999	FY 2000	FY 2001
389	449	357	412

The increase is partially a result of changes in the real estate market that affected most FHA single family programs, including lower interest rates. There was a general increase in FHA single family activity in FY 2001. As a percentage of all single family lending, the number of endorsements in underserved areas was relatively stable.

Other FHA activities during FY 2001 contributed to the quality of distressed neighborhoods. These include "Good Neighbor" discounts on HUD-owned properties for police officers, teachers and non-profit organizations, automated underwriting, efforts to prevent predatory lending, and a Credit Watch program to improve or suspend poorly-performing lenders.

FHA also insures loans to develop and rehabilitate multifamily properties in underserved neighborhoods. In FY 2001, about one-fourth of FHA multifamily mortgage endorsements were for properties in underserved areas. Multifamily properties that received FHA-insured mortgages for the first time during FY 2001 included 5,464 units in underserved areas, compared with 9,072 in FY 2000. Low interest rates during FY 2001 caused an increase in refinancing as a proportion of multifamily endorsements in underserved areas.

Rental Units in Newly Endorsed Multifamily Developments in Underserved Areas

FY 1998	FY 1999	FY 2000	FY 2001
11,709	5,480	9,072	5,464

Fannie Mae and Freddie Mac

The Department sets three types of public purpose goals for Fannie Mae and Freddie Mac. One goal for calendar year 2000 was that 24 percent of each GSE's mortgage purchases should support underserved areas (performance goal 4.2.b). During the 2000 performance year, Fannie Mae exceeded the goal by achieving 31.0 percent, up from 26.8 percent in 1999. Freddie Mac achieved a level of 29.2 percent, an increase from 27.5 percent in 1999. For 2001, pursuant to a HUD rule, the goal will be increased to 31 percent for each GSE.

Percent of Fannie Mae Mortgage Purchases in Underserved Areas

1997	1998	1999	2000
28.8%	27.0%	26.8%	31.0%

Percent of Freddie Mac Mortgage Purchases in Underserved Areas

1997	1998	1999	2000
26.3%	26.1%	27.5%	29.2%

Strategic Objective 4.3: Communities are safe

Reducing crime around public and assisted housing is essential to revitalizing these neighborhoods and retaining affordable housing. Even small actions like reducing trash and litter may affect crime. Reducing crime in public housing is a high priority to revitalize public housing.

The 1999 AHS data show that 14.3 percent of the Nation's residents reported that there was crime in their neighborhood (performance goal 4.3.1). This was a significant improvement from the 17.2 percent who experienced public safety problems in 1997.

In FY 2001, the Department made about $310 million available to PHAs under the Public Housing Drug Elimination Program (PHDEP). The formula-based grants went to housing agencies and their resident management councils for initiatives to reduce crime. Typical grants funded security personnel, physical investments promoting security, and drug treatment and other services at targeted housing developments. Among residents of developments targeted by PHDEP grants, the percentage who feel "safe or somewhat safe" increased from 57 percent in FY 2000 to 69 percent in FY 2001 (performance goal 4.3.2). Congress has merged HUD's drug elimination activities into the operating subsidy program in FY 2002. The prior grant program had experienced high unexpended balances.

HUD also provided funding through HOPE VI for the demolition and revitalization of the worst public housing developments and surrounding neighborhoods. HUD promoted "defensible space" designs that prevent the public safety problems that develop in urban no-man's land. The Department enforced a "one strike and you're out" policy to screen public housing applicants and evict residents who commit crimes or peddle drugs. Finally, through the Officer Next Door program, HUD helped improve public safety by creating incentives for law enforcement officers to live in distressed communities.

Trends and External Factors Affecting Strategic Goal 4

The country's recent economic growth has produced millions of new jobs, including many in central cities and other older communities. Still, there are sizable imbalances in the job market, with most jobs requiring high skill levels, while many persons seeking employment are looking for low-skill jobs. The changing structure of the global economy has made it challenging for communities to compete when capital is highly mobile, markets for goods and services are widely dispersed, and wages for low-skilled employment are much lower in many locations abroad.

Local shortages of low-skilled jobs are compounded by mismatches between the locations of available jobs and the residences of the unemployed. Many older communities across the country have adopted aggressive strategies to alleviate these mismatches, but face numerous barriers to success. Their tax rates generally exceed rates in newer communities because they struggle to provide quality services despite declining tax bases. Land development is complicated by scarcity of land, scattered and/or absentee ownership, real or perceived contamination, and the need for clearance or rehabilitation of existing physical structures.

Job development is complicated by large concentrations of poor residents. School systems attempt to provide the education and job skills essential for their students (who often face greater obstacles to learning), but in many cases, have fewer resources as tax bases decline and capital maintenance costs increase. Crime, whether real or perceived, deters businesses from locating in these communities. The extent to which residents of areas of concentrated poverty are increasingly minorities may add barriers of racial discrimination to the mix.

Rural communities face additional challenges because of the changing structure of the farming industry, under-investment, weak infrastructure, limited services, and few community institutions. Rural labor forces are more narrowly based and are more dispersed. Clearly, the ability of individual communities to control their own destinies in the area of job creation is limited. Both urban and rural communities are further affected by the extent to which their States provide financial assistance to overcome these obstacles. While ultimately job creation is dependent upon the investment decisions of the private sector, the coordinated efforts of all levels of government, along with the private sector, are needed to address these challenges.

Another factor that must be considered is that communities have a great deal of flexibility when using HUD funds to address their economic conditions. Many programs, including the Community Development Block Grants (CDBGs), may be used for a variety of eligible activities at the discretion of the grantee. When communities do choose to address job growth for lower-income individuals, there are a wide variety of approaches that are difficult to measure. Some communities may support infrastructure to increase business development in certain areas, while others may directly apply CDBG funds toward preparing individuals for employment. Thus the ability of communities to respond with discretion to local conditions also establishes constraints on assessing results at a national level.

Strategic Goal 5: Ensure Public Trust in HUD

HUD's stewardship of billions of Federal dollars requires the Department to continually earn the confidence of Congress and the public. HUD has a fundamental responsibility to build performance, customer service, ethical standards and accountability into every part of our operations.

GAO's High Risk Designation

In 1994, the General Accounting Office (GAO) designated all of HUD's major program areas as high risk, because of four major Department-wide deficiencies which undermined integrity and accountability: (1) internal controls; (2) information and financial management systems; (3) organizational structure; and (4) staffing. In its January 2001 report entitled "Major Management Challenges and Risk," GAO acknowledged that HUD has continued to make progress in addressing these problems. Although two major program areas—single family mortgage insurance and rental housing assistance—still remain designated as high-risk, the Department-wide designation as a high-risk agency was removed. This reflects the general improvement of HUD's management control environment. HUD's plans to address the remaining high risk areas are discussed in the Financial Management Accountability section of this report.

Customer Satisfaction

HUD's partners, which include government, non-profit and for-profit entities, provide service delivery for a majority of HUD programs. Between December 2000 and June 2001, HUD completed a survey of eight groups of partners to assess both partner satisfaction with the Department generally and perceptions of the recent management changes at HUD ("How's HUD Doing? Agency Performance As Judged By Its Partners," December 2001).

The partner groups surveyed included: community development directors, public housing agency directors, Fair Housing Assistance Program directors, mayors, multifamily owners (insured, assisted or Section 202/811), and non-profit housing providers. Overall satisfaction by partners varied greatly, with FHAP directors and mayors highly satisfied, and public housing agency directors and multifamily owners less satisfied. Similarly, partner assessments of the HUD 2020 management changes were mixed.

An important finding was that partner groups—or individuals within partner groups—were substantially more likely to hold unfavorable opinions if they perceived the Department's role as "mainly regulating" rather than "mainly support" or "equally providing support and regulating." Nevertheless, majorities within nearly every partner group expressed satisfaction both with the Department's programs and with the way they are run. The exception was PHA officials, many of whom were dissatisfied with the way HUD was running their programs.

FY 2001 Baseline Results of HUD Partner Survey

	Percent satisfied or very satisfied with "the HUD programs you currently deal with."	Percent satisfied or very satisfied with "the way HUD currently runs those programs."
Community Development Department partners	87%	73%
Mayoral partners	88%	79%
Public Housing Agency partners	59%	39%
FHAP Agency partners	85%	68%
HUD-Insured Multifamily Housing partners	69%	60%
HUD-Assisted Multifamily Housing partners	62%	53%
Section 202/811 Multifamily Housing partners	88%	78%
Non-profit Housing partners	62%	52%

In addition, the American Customer Satisfaction Initiative for Federal Government again surveyed some groups of HUD partners and calculated an American Customer Satisfaction Index (ACSI) that is comparable to private sector benchmarks. For 2001, the ACSI was completed for two major types of FHA partners:

- Lenders (who were not surveyed in HUD's study), and

- Multifamily managers.

The ACSI for lending institutions offering FHA loans was 66 percent, compared with an average score of 68.5 percent among the six agencies offering grants or financial services. The ACSI for owners' management agents of FHA assisted and insured housing was 59 percent, compared with an average index of 62.9 percent for the seven agencies engaged in comparable regulatory activities. The latter result of 59 percent provides reasonable validation of the findings of HUD's partner survey shown above (60 percent satisfaction for insured multifamily partners and 53 percent satisfaction for assisted multifamily partners).

Means and Strategies

REAP and Team. As recommended by the National Academy of Public Administration, the Department completed the third and final phase of the implementation of the Resource Estimation and Allocation Process (REAP) in December 2001. REAP results are being used to support a pending redeployment of HUD staff to better meet essential program processing and oversight needs. REAP results were also used to support the development of HUD's FY 2002 staffing plan and FY 2003 staffing budget request.

The results of the REAP, which involved establishing a baseline for estimated resource requirements and staff allocations, will be validated by the ongoing Total Estimation and Allocation Mechanism (TEAM), which was launched in January 2002. The combined REAP/TEAM effort will facilitate an overall Human Resource Management Strategy that will: provide for a more efficient and effective alignment of resources; establish a recruiting strategy; ensure leadership continuity for all grade levels; and provide a training and development blueprint for current and new employees.

EGovernment. HUD is utilizing information technology to transform its core business processes and advance its mission. The Department has developed and implemented an eGovernment Strategic Plan that provides a baseline of HUD's eGovernment capabilities, outlines short-term initiatives and the required capabilities to realize HUD's eGovernment goals, and recommends a phased implementation path. Significant eGovernment initiatives started or continued during FY 2001 include the following:

- Continuing 75 ongoing initiatives designed to meet the needs of HUD's stakeholders—including citizens, business partners and employees.

- Developing and issuing Enterprise-wide policies and procedures on electronic signatures and electronic records management.

- Instituting an annual eGovernment Day and a monthly eGovernment Champion Program that recognizes employees who are instrumental in meeting Government Paperwork Elimination Act (GPEA) requirements and eGovernment Strategic Plan goals and objectives.

- Developing a marketing strategy to increase eGovernment awareness.

HUD was recognized as a leader throughout Government for its implementation of GPEA. Major eGovernment accomplishments include:

- Developing mapping software for citizens' and program participant use in identifying and planning HUD-supported program activity.

- Redesigning HUD's web page to be more intuitive, citizen centered, and user friendly.

- Enabling mortgage lenders to obtain FHA case numbers on-line.

- Creating the Public and Indian Housing (PIH) Information Center (PIC) to provide real time data sharing between PIH and public housing authorities.

- Implementing a web-based disbursement processing and reporting application to support PIH's capital funding programs with PHAs (e-LOCCS).

Enterprise Architecture for Information Systems. HUD's Enterprise Architecture (EA) initiative is designed to provide a Department-wide definition of HUD's current business and technology systems architecture baseline in support of HUD's IT Capital Planning lifecycle. It is structured to ensure that HUD's investments support the agency's business objectives and to provide a reasonable return on investments. When it is fully implemented, it will provide a basis for improving the management of HUD's current information systems and the ability to meet future information systems needs.

HUD has developed an EA model that is comprised of five architectural layers. The model expands upon the Federal Enterprise Architecture Framework (FEAF) developed by the Federal CIO Council. These layers are:

1. the Stakeholder layer;

2. the Business layer;

3. the Data layer;

4. the Applications layer; and

5. the Technology layer.

HUD developed the Enterprise Architecture Management System (EAMS) as a web-based tool to track and analyze the layers of HUD's EA, and the relationships between those layers. It serves as a repository for the information necessary to define the Department's baseline architecture and plan the definition and design of the target architecture for the future. The EA process is being applied to all of HUD in the context of 17 specific business functions within the following 5 general business areas:

- Deliver Federal Housing Assistance;

- Support Community and Economic Development;

- Provide External Oversight;

- Support Delivery of Services and Products; and

- Manage Resources and Internal Operations

An EA high-level target is in place for two of HUD's key business functions: financial systems and grants management. EA targets are being developed for the remainder of HUD functions. HUD also plans to develop and implement an EA policy and to expand EAMS to include performance indicators, security considerations and accessibility issues for IT investments.

Data Quality. HUD has been cited for internal control deficiencies associated with data quality. In FY 2001, HUD launched its Data Quality Improvement Program (DQIP) to improve and resolve the data integrity issues. Significant actions include:

- Completing data quality assessments for seven mission critical systems.

- Certifying two of the seven assessed systems and nearly completing the certification process for two other systems.

- Submitting Data Quality Plans for seven mission critical systems.

- Developing Data Quality Policies, Standards, Procedures and Guidelines.

The agency continues to move forward in its DQIP initiative by certifying five additional mission critical systems and assessing eight additional mission critical systems in the future.

IT Capital Planning. HUD has been documented for an inadequate process to control, evaluate and select IT investments that conforms to best practices. Without a complete and disciplined information technology investment management process, HUD does not have adequate assurance that it is selecting the right projects or maximizing its returns on investments.

HUD has implemented an integrated, enterprise-wide performance measurement methodology and process. This process is to provide HUD the capability to assess cost, schedule and effectiveness of all IT projects. It involves; using an automated system, Information Technology Investment Portfolio System (I-TIPS), to track HUD's IT Portfolio; integrating IT Capital Planning process with the agency's budget formulation process; using an on-line scoring process; and submitting multiple year funding request and estimating out-year funding for proposed IT initiatives.

Also, the agency implemented performance measurements into its IT initiatives and projects as apart of its integrated, enterprise-wide performance measurement methodology and process. This allows the agency to prioritize IT funding decisions based on IT initiatives and projects that produce outcomes, to assess the condition of its IT portfolio and allows the department to best meet its mission and strategic goals. The cost, schedule and performance of the IT projects are assessed through quarterly control reviews. During the quarterly reviews, progress in meeting IT performance measures' are assessed, all lifecycle costs are identified and its cost of performance measures. The project managers are required to address any variances of the projects' performance goals.

HUD has future plans to align IT projects performance measurements' with HUD's Business processes through its Enterprise Architecture. EA will be utilized to establish a linkage between the process, functions and IT applications and initiatives. It will enable the Department to develop performance measures that focuses on its business functions and IT initiatives, and will allow HUD to effectively managed its IT portfolio.

Configuration Management. Since1996, HUD has reported control weaknesses in the area of Configuration Management (CM). CM is the ongoing process of identifying and managing changes to work products throughout the life cycle of information systems development and maintenance. CM also refers to the procedures used in controlling changes to the system's hardware or software, as well as identifying software configuration, controlling changes to the configuration systematically, and maintaining software integrity. HUD has implemented a Configuration management initiative to:

- Establish and maintain the integrity of software products throughout the software's lifecycle; and
- Improve HUD's Software delivery by implementing standardized CM practices.

HUD's planned actions to correct the outstanding deficiencies entail: (1) moving all IT systems under automated tools; (2) enforcing the principles of the Central Change Management Control Board; and (3) migrating toward Capability Maturity Model Practices defined by the Software Engineering Institute (SEI) Capability Maturity Model Integration practices.

In FY 2001, HUD installed CM software tools on its Unisys and Hitachi, LAN Client-Server, Web and Lotus Notes platforms and drafted policies and procedures governing HUD's software configuration. The OIG's audit of HUD's FY 2001 consolidated financial statements recognized HUD for its considerable strides to improve software configuration management for both mainframe and LAN-based client/server applications. In FY 2001, HUD secured over 70 percent of IT systems under an automated configuration management tool and closed the OIG's previous years' CM recommendations.

Systems Security. HUD's Enterprise Security Program provides protection for HUD's critical infrastructure, both physical and information systems. This entails developing and implementing effective security procedures, security awareness and training programs, disaster recovery/ contingency planning, and monitoring compliance and effectiveness of security procedures, policies and standards. In FY 2001, significant accomplishments include:

- Identifying an inventory of all major applications and general support systems, as mandated by the Computer Security Act of 1987.
- Identifying and incorporating all sensitive and mission critical applications systems in the Critical Infrastructure Protection Plan.
- Developing security plans for all major application and general support systems.
- Implementing access control software for computer operations on all production servers in compliance with NIST 800-12 security requirements.
- Initiating the planning and program development for an entity-wide security awareness and training program;
- Implementing new user registration procedures for obtaining access to IT resources.

In addition, the OIG's audit of HUD's FY 2001 consolidated financial statements recognized substantial control improvements in HUD's mainframe environment. HUD is improving its system security by continuing with the following ongoing initiatives:

- Developing security policies and procedures;
- Assigning security responsibilities to appropriate personnel;
- Monitoring computer-related controls;
- Requiring aggressive completion of background investigations for individuals who have access to HUD's critical and sensitive systems;
- Reporting and correcting any unauthorized penetration attempt incidents; and
- Providing a comprehensive agency-wide security awareness and training program for all HUD employees and contractors.

Strengthening HUD's Oversight

The long-term and complex nature of HUD's relationships with our program partners necessitates extensive oversight to ensure high standards and quality service. HUD has established four offices that are responsible for assessing HUD's properties, enforcing standards, assisting partners, and ensuring sound financial management:

- The Real Estate Assessment Center (REAC);
- The Troubled Agency Recovery Centers (TARCs);
- The Departmental Enforcement Center (DEC); and
- The Financial Management Center (FMC).

Real Estate Assessment Center

REAC provides assessments of the physical condition, financial soundness, management capability, and resident satisfaction applicable to the HUD-supported rental housing portfolio. The Center regularly processes relevant information pertaining to over 28,000 multifamily housing properties, and 14,000 public housing properties at 3,100 Public Housing Agencies (PHAs). In addition, REAC provides computer matching and data sharing services related to select tenant income data sources for use in rent and subsidy determinations. Other remote monitoring systems were pilot tested by REAC for FHA mortgage insurance program lenders and housing appraisals.

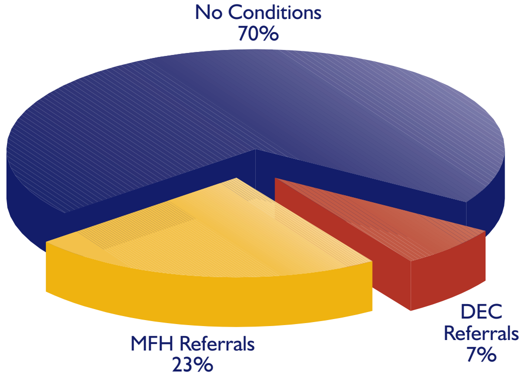
Resident Satisfaction. The recipients of HUD housing assistance constitute one of the largest groups of direct customers of HUD. During FY 2001, REAC conducted a random sample survey of 631,261 HUD-assisted renters and public housing tenants, 86 percent of who were satisfied or very satisfied with "overall living conditions" (performance goal 5.1.3).

Physical Inspections. REAC examined 18,272 properties in FY 2001, a planned decline from the 27,262 inspections conducted in FY 2000, which included baseline inspections that won't require reinspection for 2 or 3 years on projects with good baseline scores. The purpose of these inspections is to identify the extent to which public and MF housing properties meet HUD's physical condition standards, and to use inspection results as a basis for immediate correction of exigent health and safety deficiencies and overall improvement of compliance with physical condition standards. Details on inspection results are discussed under Strategic Goal 1, Objective 1.3.

Multifamily Financial Statements. All insured and some non-insured MF projects are required to electronically submit annual financial and compliance audit information to the REAC's Financial Assessment Subsystem (FASS). These submissions facilitate risk-based monitoring and management of program compliance requirements to reduce the financial and program risk related to the MF housing portfolio.

For the second submission cycle for project fiscal years ending 12/31/99 – 12/30/00 (Cycle II), 20,554 financial statements were required. Of this number, REAC received and reviewed 18,923 submissions through December 31, 2001; the number will increase as overdue submissions for this cycle continue to be received. REAC also received and reviewed an additional 1,189 non-insured project financial statement submissions that were not required to be submitted to FASS. The compliance deficiency conditions disclosed in the Cycle II submissions are summarized as follows:

Cycle II Financial Assessment Results



Of the 20,112 total submissions received for Cycle II, 19,989 were processed with 70 percent having no financial compliance deficiencies (restated performance goal 5.1.6). Of the 6,068 submissions with deficiencies, REAC referred 1,508 to the Departmental Enforcement Center (DEC) and the remaining 4,560 to MF Housing staff for additional action. Comparatively, 71 percent of Cycle I submissions had no conditions, and only 4 percent of submissions were referred to the DEC.

The slight increase in the total number of Cycle II submissions with conditions, and the higher percentage of cases referred to the DEC, is attributed to a number of factors, including: (1) the increased volume of submissions received in Cycle II; (2) the initiation of the pursuit of enforcement actions on "non-filers" or overdue submissions during Cycle II; (3) the application of several new compliance deficiency indicators that were not applicable in Cycle I; and (4) the cumulative effect of open DEC cases from Cycle I resulting in automatic referrals of Cycle II submissions on the same projects.

Tenant Income Verification. HUD's rental housing assistance programs are administered by about 4,500 public housing agencies and 22,000 private housing owners and their management agents (collectively referred to as POAs). The Department's rental subsidies are based primarily on the amount of income reported by tenants. To the extent that tenants under-report their income to POAs, the Department pays excess subsidies.

REAC uses computer matching to provide POAs with Social Security (SS) and Supplemental Security Income (SSI) information that REAC receives from the Social Security Administration. REAC electronically provides information each month to POAs for tenants who will recertify for rental assistance 4 months later.

The SS and SSI matching program is operational for all POAs. The POAs use this information to help ensure that tenants report all SS and SSI income as required. The program also reduces the burden on tenants to provide documents during the annual process of (re-) examining their eligibility and level of rental assistance.

REAC also performs computer matching of tenant-reported income maintained in HUD's tenant databases with Federal tax information, for purposes of subsidy payment error estimation and development of possible back-end program controls for payment error detection and correction. Through the Rental Housing Integrity Improvement Project (RHIIP), HUD is also focusing on increased upfront sharing of tenant income data to avoid subsidy overpayment situations due to underreporting of tenant income. (See further information in the Financial Management Accountability section of this report.)

Public Housing Assessment System (PHAS). During FY 1999, HUD began replacing the Public Housing Management Assessment Program (PHMAP) with the new Public Housing Assessment System. Under the PHMAP, PHAs self-certified as to their performance, and the process came under criticism as inadequate and lacking integrity. PHAS was developed to provide a more comprehensive and independent assessment of a Public Housing Agency's (PHA's) performance and risk to HUD. PHAS aggregates the scores of the following four component indicators:

1. Physical Condition, based on independent annual HUD project inspections (30 points);
2. Financial Condition, based on independent annual financial and compliance audits (30 points);
3. Management Performance, based on annual PHA certifications (30 points); and
4. Resident Satisfaction, based on annual resident surveys (10 points).

The scores of each of the four component indicators are aggregated in conjunction with a PHA's fiscal year-end to arrive at an integrated or combined PHAS "score" and "designation" in one of the following categories:

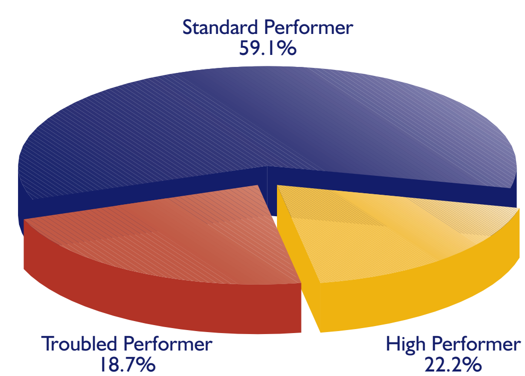
- **High Performers:** Overall PHAS Score of 90 or greater.
- **Standard Performers:** PHAS Score of 60 to 89 with no score less than 18 for the component indicators for Physical Condition, Financial Condition or Management Performance (Indicator Nos. 1, 2 or 3).
- **Troubled Performers:** PHAS Score less than 60 or more than 60 with at least one major component (Indicator Nos. 1, 2 or 3) with a sub-standard score (less than 18).

PHAS scores and underlying information provide a basis for HUD staff to target risk-based monitoring efforts, as well as necessary technical assistance and program intervention. High performing PHAs receive less HUD oversight and can be eligible for certain funding preferences.

The PHAS rule was originally scheduled to be effective for PHAs with fiscal years ending September 30, 1999, and thereafter. At that point, HUD ceased PHMAP scoring and began collecting and assessing data on all four PHAS components. PHA fiscal years end on calendar year quarters, with a fairly even distribution of PHAs between each quarter. Due to delays in the formal implementation of the PHAS rule, the scores for FY 2001 are considered "advisory scores." During the PHAS advisory scoring period, PHAs cannot be referred to the Troubled Agency Recovery Centers solely on the basis of PHAS scores, except for PHAs that self-certify a troubled "management performance" indicator.

Nevertheless, the complete PHAS scores are the best available information on PHA conditions. The distribution of designations and scores for PHAs with complete PHAS scores for FY 2001 are shown in the following chart and table:

PHA Performance Assessment
2,714 PHAs with 1,100,830 Units



FY 2001 PHAS Designations Advisory Scores for PHAs

	PHAs	No. of Units
High Performer	603	140,409
Standard Performer	1,603	683,900
Troubled – Physical Only	179	151,130
Troubled – Management Only	23	2,229
Troubled – Financial Only	240	69,071
Troubled – Overall*	66	53,691
Troubled – Total**	508	276,121
Total Scored	2,714	1,100,830

**PHA with a score less than 60 or with more than one sub-standard component*

***Troubled—Total is the aggregate of the 4 Troubled Categories just above this line; it is not included in the "Total Scored" to prevent a double count of Troubled Performers*

Complete PHAS scores were available for 2,714 or 86 percent of the 3,171 PHAs active during this cycle. Scores not yet available or reported are primarily due to filing extensions, waivers and pending appeals.

Troubled Agency Recovery Centers

TARCs assist public housing agencies in correcting major physical, financial and management deficiencies. HUD measures the performance of PHAs in major areas such as compliance with Uniform Physical Condition Standards, financial soundness, vacancy rates and unit turnaround time, and efforts to modernize units. HUD assesses PHA performance in these various areas in order to determine troubled agencies in need of technical assistance and program intervention. In worst-case situations, HUD can takeover a PHA or seek a court appointed receiver to replace PHA management.

Given the delayed implementation of the full PHAS rule as the replacement for the former PHMAP rating system, the TARCs' FY 2001 workload included resolving problem conditions at PHAs formerly designated as troubled under PHMAP, non-troubled PHAs with identified deficiencies, and PHAs more recently designated as troubled for the self-certified PHAS "management assessment indicator." At the beginning of FY 2001, 60 designated troubled PHAs were pending at the TARCs, of which 50 were reported as recovered by the end of FY 2001. Considering PHAs with a newly designated troubled "management indicator" during FY 2001, there were 21 designated troubled PHAs pending at the TARCs at the end of FY 2001.

In addition to assistance to designated troubled PHAs, the TARCs also worked with PHAs having difficulties in administering their Section 8 programs. Furthermore, the TARCs have been utilized by HUD Field Offices to conduct PHA assessments and provide technical assistance to PHAs that have deficient areas of operation that are not formally designated as troubled.

HUD continues to work with its PHA industry partners in defining an acceptable PHAS rating process. Following full implementation of a revised PHAS rating process in FY 2002, the number of designated troubled and sub-standard performers referred to the TARCs may increase substantially.

Departmental Enforcement Center

DEC addresses serious problems of distressed multifamily properties that have failed physical and financial inspections and require corrective action by owners, lenders and management agents. DEC also enforces administrative and regulatory business agreements through the debarment or suspension of individuals in non-compliance in single and multiple family properties. DEC is also charged with imposing monetary penalties in cases of serious non-compliance.

DEC was established within HUD to work in a collaborative fashion with all Program Offices in implementing necessary enforcement actions. The DEC aggressively pursues enforcement actions against owners, landlords, lenders, management agents, recipients, grantees and other participants who are in non-compliance or in violation of statutes, regulations and/or other program requirements relating to programs administered by HUD. DEC refers criminal cases to the Office of the Inspector General and civil cases to the Department of Justice. These actions bring resolution to the most difficult and significant non-compliance issues among recipients of HUD program resources and ensure compliance with legal requirements under HUD agreements to preserve decent, safe and sanitary housing for low- and moderate-income households.

Since its inception, DEC has made significant strides towards accomplishing its mission. These include over $71 million in Owner Contributions to improve properties and $43.8 million in Actual Repayment Recoveries returned to the properties. Furthermore, DEC actions have resulted in judgments, assessments of penalties, settlements of lawsuits and/or administrative actions or other agreements that obligated HUD participants to make payments to HUD or return funds to HUD insured/subsidized projects for a total of $51 million.

Since September 1998, DEC has received 4,149 referrals of multifamily properties, many of which are the most egregious cases in the Department's inventory. To date, the DEC has closed 2,672 cases or 64 percent. For FY 2001 alone, there have been 2,438 referrals of multifamily properties, an average of 203 referrals each month. Prior to FY 2001, DEC was receiving an average of 71 referrals each month. Average referrals each month have increased 185 percent when comparing FY 2001 to previous fiscal years. Most of the increase is due to referrals for financial reviews.

Processing times have improved from 529 days for a physical referral and 267 days for a financial referral in FY 1999 to 188 days for a physical referral and 116 days for a financial referral in FY 2001. DEC has caused an improvement of more than 42 points on average for every property referred having both a first and second REAC inspection.

Mortgagee Review Board actions have increased by 51 percent over FY 2000. In FY 2001, compliance actions (e.g., suspensions, proposed debarments and final determinations) have increased by 36 percent compared to FY 1999, while processing time for these actions decreased by 41 percent. Administrative sanctions (including debarments, suspensions, and proposed debarments) resulted in 2,191 actions taken in FY 2001. DEC enforcement actions this year have resulted in 224,945 housing units being restored to decent, safe, and sanitary conditions versus 41,344 reported for FY 2000.

In FY 2001, DEC put special emphasis on non-filers of annual financial statements. Civil Money Penalties resulting from settlements and judgments against non-filers have almost tripled in FY 2001 over FY 2000.

For FY 2001, DEC persuaded the owners of 130,322 multifamily housing units to reinvest $24 million to bring inferior properties up to HUD standards and to repay $34 million to the projects. As a result of these actions, there was a 194 percent improvement in the average score of the properties after enforcement action was taken.

DEC exceeded all FY 2001 management goals. We reduced the number of multifamily cases by 83 percent in FY 2001 and closed 80 percent of all cases received in FY 2001 that have been in the DEC for 180 days. Cases were closed in an average of 121 days. Sanction notices to participants for suspension and/or proposed debarment were completed for 80 percent of the cases referred for the fiscal year for indictment, civil judgment, conviction and fact-based cases.

For FY 2001, 791 administrative actions were taken to discourage predatory lending. This number consisted of 254 suspensions, 227 proposed debarments, and 310 debarments. A total of 92 actions were taken by the Mortgage Review Board. DEC imposed civil money penalties and accepted settlement payments and agreements for loan indemnifications for $19.7 million.

For FY 2001, there were 2,438 referrals of high-risk or troubled multifamily projects to DEC—an increase of 42 percent compared to the referrals of the previous two fiscal years. A total of 1,822 cases were closed—an increase of 114 percent compared to closed cases of the previous two fiscal years.

For FY 2001, there were 520 referrals (453 subjects and 67 affiliates) for administrative sanction action—suspensions, proposed debarments and debarments—an increase of 5 percent compared to FY 2000.

Financial Management Center

FMC is responsible for the financial management of the Public and Indian Housing (PIH) tenant-based and Office of MF Housing project-based Section 8 programs that HUD administers with Annual Contributions Contracts (ACCs). FMC provides financial management support for approximately 10,400 ACCs. HUD uses annual budgets and requisitions/payment schedules to advance funds to the Housing Authorities (HAs) and Contract Administrators (CAs) that administer these programs.

The Center must approve all budgets and payment schedules to allow for payment on the first date of the budget period. At the end of FY 2001, a total of only 91 active contracts nationwide (less than 1 percent) did not have their payments scheduled, compared with 234 ACCs (2.2 percent) at the end of FY 2000, which did not have their payments scheduled. The 91 active contracts included principally expired contracts for which the owners had not submitted their renewal requests and contracts for which budgets and requisitions for the new fiscal year had not yet been submitted.

HAs/CAs must also submit year-end settlements within 60 days of the end of the fiscal year to the Center, because the settlement is the only vehicle to identify and recoup excess advances made to the HAs/CAs and since it is the only source document that identifies excess reserves that HUD should recapture. In FY 2000, FMC modified its procedures to clearly identify settlements it has not received on-time, enable closer oversight, and ensure greater accountability and collection of excess advances. The most significant settlements are those relating to PIH certificate and voucher programs, as HUD must analyze reserves annually to determine excess, and because current procedures provide funding for only a one-year term. During FY 2001, settlements were due on 4,591 certificate and voucher programs and have not been received on only 22 of them (less than one percent). This compares to FY 2000 when settlements were due on 4,829 certificate and voucher programs and had not been received on 44 of them.

FMC has processes to review, reconcile, and approve year-end settlements within 60 days of receipt; to schedule underpayments for immediate payment; and to offset overpayments with the next scheduled payment(s). During FY 2001, FMC substantially improved on achieving this goal as compared to FY 2000. During FY 2000, the FMC was unable to close any settlements for a period of time due to recapture activities and accounting system anomalies, and FMC gave priority to closing all settlements for tenant-based Certificate and Voucher programs prior to the recapture and met that goal fully. In FY 2001, the most significant impediment to the goal was the Department's late publication of the administrative fee schedules effective October 1, 2000. Their publication in June, 2001 delayed closing settlement for fiscal years ending Decmeber 31, 2000, and March 31, 2001. In FY 2001, FMC did again focus on closing settlements in support of the tenant-based recapture, and met that goal. During FY 2001, a total of 4,591 settlements were due from housing agencies for the tenant-based programs. Of those received, whether timely or not, only 65 (1.3 percent) are not closed; this includes any held open for receipt of final payments, program reasons or technical problems.

HUD requires FMC to identify incidences of rejected payments and have them corrected within 3 business days. The Center has developed a process to identify all rejected payments. When it began this process in June 1998, FMC identified 248 of 6,025 tenant-based ACCs that had payments rejected. In November 1999, the Center reported only 47 of 10,400 tenant- and project-based ACCs had payments rejected. At the end of FY 2001, only one-half of one percent of contracts had rejected payments, which is fractionally lower than the FY 2000 figure. Rejections are infrequent and are generally due to insufficient budget authority or a technical problem.

FMC ensures that contracts are established for all reserved funds within 60 days of receipt unless delayed by some type of HUD action. The Center has unilateral contracting authority for all tenant-based ACCs (the Center's financial analysts contract these funds in a timely fashion). Since the contracting action for tenant-based incremental funding and MF project-based ACCs is less controllable, the Center has developed controls to identify uncontracted funds for these programs and to facilitate establishment of the contracts. FMC also maintains a status report on all MF contracts due for renewal in a given year and tracks progress via bi-weekly updates.

Trends and Factors Affecting Strategic Goal 5

Ensuring Public Trust in HUD requires that HUD both ensures operational consistency in reforms it has already instituted, and completes effective corrective actions on remaining material management control weaknesses and other concerns discussed in the “Financial Management Accountability” and “Management and Performance Challenges and Progress” sections of this report.

While GAO has acknowledged HUD’s progress in improving its management control environment and reducing risks in major program areas, additional actions are needed to further reduce risks associated with HUD’s single family mortgage insurance and rental subsidy programs, and to improve HUD’s information systems and management of its human capital.

To better assure operational consistency, it is essential that HUD complete the implementation of a resource estimation and allocation process, to provide a more systemic means of estimating resource needs and managing workload. As it is unlikely HUD will receive any significant staffing increase, it is also essential that efforts continue to improve upon the use of risk-based monitoring techniques in HUD programs, to use existing staff and program resources more efficiently and effectively. When significant performance and compliance problems are identified—be they from single family mortgage lenders, MF project owners or agents, PHAs, local governmental entities, or other participants—HUD must act appropriately to address those problems to minimize the risk and further program objectives.

In the area of information systems, the Office of the Chief Information Officer has instituted many process improvements to better support the planning, development and maintenance of HUD’s Information Technology (IT) investments. However, it is essential that HUD program managers assume a stronger systems ownership role in assuring that systems requirements and controls over data quality are properly established to better support their program delivery and mission.

To address material weaknesses in rental subsidy programs, HUD will need the cooperation of its program partners and tenant groups to push for simplification of program requirements and improved internal controls for assuring that subsidy payments go to those for whom they were intended, in the proper amounts. Statutory change may be required to simplify and standardize subsidy program requirements, thereby reducing administrative burdens and costs and the risk of payment errors.

Secretary Mel Martinez has stated that his “agenda starts with good strong management…the first thing is to get your house in order.” Working as partners with Congress, HUD will continue to improve both program and financial accountability in order to ensure the public trust.

Financial Management Accountability

This section covers:

Federal Managers' Financial Integrity Act Reporting

Secretary's Audit Resolution Report to Congress

Delinquent Debt Collection

Federal Managers' Financial Integrity Act Reporting

FMFIA Assurance Statement

I am able to certify with reasonable assurance that, except for the material weakness and non-conformances specifically identified in this section of the FY 2001 Performance and Accountability Report, the Department is in compliance with the provisions of Section 2 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. With regard to Section 4, I am unable to certify that HUD is in full compliance with FMFIA. While most of HUD's financial management systems are substantially compliant, the Department continues its efforts to ensure full compliance with capturing standard general ledger information at the transaction level.

HUD remains fully committed to bringing its internal controls and systems into full compliance with the requirements of FMFIA.

Mel Martinez, Secretary
Department of Housing and Urban Development

Material Weaknesses and Management Concerns

Material weaknesses are management control deficiencies that do not provide reasonable assurance that: obligations and costs are in accordance with applicable laws, assets are safeguarded, and accountability is maintained. Management concerns are areas that warrant actions to strengthen management controls, although the level of risk is assessed as within an acceptable materiality threshold.

Overall, HUD has made significant progress in addressing the weaknesses reported in prior FMFIA assurance statements, as independently verified by the Office of the Inspector General (OIG) in annual audits of the Department's Financial Statements. Notwithstanding, the one open material weakness reported at the beginning of FY 2001 remains open.

Material Weakness FY 2000 Carry Over Issue and FY 2001 Status

First Reported	Material Weakness	Status at End of FY 2001
1996	Controls Over Rental Subsidies [1]	Open

At the beginning of FY 2001, HUD had 12 open management concerns. At the end of FY 2001, management considered 2 concerns closed, but 2 new concerns were opened, leaving 12 open management concerns.

[1] *This material weakness was presented in 1999 and prior reports as "Income Verification." In FY 2000, HUD expanded the weakness to include all issues associated with improving controls over rental subsidies, including a previously reported management concern entitled "Project-Based Subsidy Payments."*

Management Concerns
FY 2000 Carry Over Issues
and FY 2001 Status

Carry Over/ New Issues	Management Concern	Status at End of FY 2001
MC1	Performance Measures *	Open
MC3	PHA Monitoring	Open
MC4	HUD's Computing Environment*	Open
MC5	Personnel Security Over Systems*	Open
MC6	HUDCAPS Access/Data Integrity*	Closed
MC7	Obligation Balances*	Open
MC8	FHA Loss Prevention*	Open
MC10	SF Property Inventory*	Open
MC12	FHA Systems Controls*	Open
MC13	Resource Management	Open
MC14	Management Controls	Open
MC15	Reconciliation with Treasury Balances*	Closed
New	Single Audit Act Coverage	Open
New	Administrative Funds Control	Open

**Reportable Conditions in OIG's FY 2000 HUD Financial Audit*

FY 2001 Management Control Improvements

In FY 2001, the Department continued to see significant progress in the control and accountability of its programs. Efforts to strengthen HUD's management control environment—by consolidating and streamlining operations and implementing automated program monitoring systems—were particularly successful. HUD program offices were provided with more complete, timely, and objective assessments of HUD's program performance, for risk-based targeting of program monitoring, assistance and intervention activity. In addition, increased enforcement actions were taken to demonstrate that HUD is serious about program integrity and performance, including aggressive actions with owners responsible for poor conditions in HUD-supported housing.

In order to bring consistency and uniformity to HUD's monitoring processes in Headquarters and the Field, the Department continued to deliver the Compliance and Monitoring Training Program, which was developed in FY 2000. In FY 2001, four sessions were held, and approximately 430 employees with monitoring and compliance responsibilities were trained. This brings the total number of employees trained under this program to over 1230.

Another successful FY 2000 initiative that was continued in FY 2001 was the Quality and Management Review (QMR) Program. QMRs are conducted to assess the effectiveness of management and program operations and controls, evaluate performance in terms of results, identify deficiencies or shortfalls, share exemplary performances, and provide immediate on-site technical assistance, as necessary. In FY 2001, ten QMRs were completed, providing top management with timely and relevant information.

HUD further refined its Management Plan, which holds organizations accountable for delivering specific results tied to HUD's Strategic and Annual Plans under the Government and Performance Results Act. In its report on "Managing for Results", GAO ranked HUD second among 28 federal agencies because its managers use the Department's strategic goals and performance information to establish priorities, coordinate program efforts, and set job expectations.

To address the staffing imbalances and other human capital challenges, the Department has implemented the Resource Estimation and Allocation Process (REAP). REAP establishes a baseline for staffing requirements and supports budget formulation and execution and strategic planning by tying together staff resources and program activities. The last phase of REAP was completed in December 2001. REAP results have been used to formulate staffing requirements for the FY 2003 budget, develop the FY 2002 staffing plan for the Congress, and develop the Department's long-range Workforce Plan. The next step in the development of the Department's resource management strategy is the implementation of the Total Estimation and Allocation Mechanism (TEAM). TEAM is the validation component of REAP and will collect actual workload accomplishments and staff usage for comparison against the REAP baseline. TEAM is scheduled for implementation in the Spring of FY 2002.

HUD has also stabilized its financial management systems environment and instituted adequate controls. The Office of the Chief Financial Officer corrected two previous management concerns pertaining to the reliability and security of HUD's critical financial systems, and controls over fund balance with Treasury reconciliations.

Status of Remaining Material Weakness

The Rental Housing Integrity Improvement Project (RHIIP) was established as a Secretarial Initiative in the Spring of 2001, to resolve the high-risk status and material management control weaknesses in HUD's rental housing assistance programs. The project represents a shift from HUD's previous focus on back-end program error detection and recovery efforts to more proactive front-end program improvements and controls designed to address the root cause of errors and improper payments. The overall purpose of RHIIP is to ensure that the "right benefits go to the right persons"—enabling HUD's limited program funding to serve as many low-income households as possible.

HUD expenditures for rental housing assistance programs exceeded $18 billion in FY 2000, and topped $21 billion in FY 2001. Information on the nature and magnitude of improper payment problems in the rental housing assistance programs was significantly expanded by the January 2001 release of a HUD report on a variety of rent calculation errors by the public housing agency, project owner, and management agent intermediaries that administer these programs. Over 60 percent of rent calculations were found to contain some type of administrative or component processing error, resulting in an estimated $1.7 billion of annual subsidy overpayments and $0.6 billion in annual subsidy underpayments. The study was expanded to assess further erroneous payment impacts from tenant underreporting of income, resulting in an estimated $978 million of additional estimated annual subsidy overpayments

HUD's prior corrective action focus on erroneous subsidy payments had been on developing and implementing a large-scale computer-matching program with IRS and SSA federal tax data, for after-the-fact detection and correction of erroneous payments. While more effective back-end program controls are still under consideration, a multi-organizational RHIIP Advisory Group developed a comprehensive strategy for addressing the root causes of all known types of subsidy payment error. The solutions are interrelated and a comprehensive corrective action plan has been developed.

An essential ingredient to resolving the material weaknesses is the active participation of all of the Department's customers. Their participation is essential for defining the problems, developing effective corrective action plans, and participating in the problem resolution. Therefore, HUD initiated a series of meetings to obtain stakeholders input, and created a web site for better communications.

Planned Initiatives

HUD will continue to implement its RHIIP strategy, including the completion of actions to:

- Develop and implement statutory and/or regulatory program simplification proposals;
- Increase the sharing of available tenant income data, from federal and/or state data sources, for upfront use in making correct rent and subsidy determinations;
- Provide a rent calculation software tool to better support the processing of rent and subsidy determinations by HUD's program intermediaries, as well as an automated subsidy payment validation process;
- Establish a periodic error measurement process;
- Design and implement a comprehensive Quality Control Program over the rent and subsidy determination and payment processes;
- Enhance program incentives and sanctions for tenants and administrative intermediaries;
- Update written program guidance; and
- Provide increased program training and education to tenants, administrative intermediaries and HUD monitoring staff.

Departmental Financial Management Systems

The following material non-conformances are carried over from the prior year:

Material Non-Conformances FY 2000 Carry Over Issues and FY 2001 Status

First Reported	Material Non-conformances	Status at End of FY 2001
1989	Departmental Financial Management Systems	Open
1991	FHA Accounting and Financial Management Systems	Open

FY 2001 marked a milestone year for the Department in declaring the completion of the Financial Systems Integration Project and establishing the HUD Accounting and Program System (HUDCAPS) as the Department's core standard general ledger. The Department's efforts to implement a core accounting system and establish a single integrated financial management system began in 1991. The objectives were to implement a core accounting and financial management system that provides department-wide financial information; improve financial management and integration of financial and programmatic systems; and provide necessary management information to carry out HUD's mission.

In FY 2002, the Office of the Chief Financial Officer will initiate an independent analysis of the Department's general ledger requirements for the future. The analysis will review the Department's current accounting systems status, evolving information technology products, and federal financial systems requirements. The strategies and plans resulting from this analysis will further integrate the Department's financial management systems, replace legacy systems, and provide for improved data flow processing and reporting. The Department will also ensure that it is keeping up to date with technology, is in compliance with federal regulations, and providing the most accurate and timely information to HUD management, staff and business customers.

HUD continues to address financial management systems non-compliance with the Federal Financial Management Improvement Act and OMB Circular A-127. A listing of the non-compliant systems is in Appendix A-2. As of fiscal year end 2001, HUD is reporting 17 non-compliant systems as compared to 11 non-compliant systems as of fiscal year end 2000. Prior year audits have discussed weaknesses with FHA's feeder systems, the need for manual processes and procedures to convert system data to be U.S. Standard General Ledger compliant, and inability to update the Departmental general ledger in a timely basis. The increase in the number of non-compliant systems represents recognition of the nature of these existing systems deficiencies and does not represent newly developed deficiencies.

HUD has developed corrective action/remediation plans to address the identified deficiencies for its non-compliant systems. HUD has also, since 1998, obtained independent reviews of its financial management systems to verify compliance with federal financial systems requirements, identify system and procedural weaknesses, and develop the corrective action steps to address identified weaknesses.

FHA Accounting and Financial Management Systems

The FHA Comptroller has developed a Blue Print for Financial Management Systems that describes FHA's overall plans to eliminate audit deficiencies, comply with federal laws and regulations affecting financial systems, adhere to HUD's systems modernization policies, and improve financial operations. Key objectives include implementing a new general ledger compliant with the U.S. Standard General Ledger and credit reform requirements; implement automated funds control processes; and eliminate manual accounting processes and improve integration of financial and program systems.

The FHA Subsidiary General Ledger Project will implement the Blue Print for Financial Management Systems. The Project is a multi-phase project to be executed over several years through December 2006. FHA has acquired a commercial off-the-shelf (COTS) financial management system to replace the existing general ledger. Current milestones include implementing a new FHA general ledger to automate Headquarters' and Field Office funds control processes, implement FHA payment and collection software, and integrate or replace FHA insurance systems with the subsidiary general ledger.

The new subsidiary general ledger is projected to be in operation starting October 2002. As a result, the majority of non-compliances identified in the FHA accounting systems will be substantially addressed.

Other Financial Management Systems Activities

Office of the Chief Financial Officer

- Enhancements were made to the core accounting system reporting capabilities to improve SF-224 reporting and FACTS II quarterly reporting.

- Implemented quarterly posting of FHA summary financial data to the HUDCAPS general ledger. The FHA Subsidiary General Ledger Project will provide for monthly submission of financial data for consolidated financial statement reporting.

- The HUD Travel Management System, HTMS, automates HUD's travel business processes by standardizing travel management forms and procedures, electronically routing approval paths, validating promptness of payment via on-line interface with HUD's accounting system, HUDCAPS. The HTMS project was recognized by Government Executive Magazine as "Travel Managers of the Year" as exemplary of effective federal agency travel by integrating the processes and related systems together.

Office of Housing

- Implemented corrective measures to systems problems and improved data transmission and accessibility through EDI and FHA Connection:
  - Improved response time to access case histories for the Single Family Premium Collection Subsystem—Upfront (SFPCS-U);
  - Implemented EFT to Taxing Authorities and EDI to Treasury to speed up transmission process for the Single Family Asset Management System (SAMS);
  - Provided system users access to daily and monthly Treasury deposit reports via FHA Connection for the Home Equity Conversion Mortgage System (HECM); and
  - Processed over 92 percent of loss mitigation claims received in July 2001 through the FHA Connection, rather than through paper documents, for the Single Family Claims Subsystem

Office of the Chief Information Officer

- HUD has developed a Department-wide Data Quality Improvement Program to address information quality deficiencies identified in audits and congressional reports. Annually, selected systems are assessed to determine whether data meets the required quality level, and are certified once data requirements are met. As of the end of FY 2001, the Department has certified four Program Areas as compliant with data quality standards.

- The IT Capital Investment Planning Process continues to be refined and institutionalized. Quarterly project reviews overlay a discipline by a combination of quantitative and subjective criteria to measure the IT projects' progress through the projects' lifecycle, and as a result, take corrective action where needed.

- The Departmental Electronic Government Program is a strategic effort bringing HUD into compliance with the Government Paperwork Elimination Act (GPEA) and the President's mandate to provide better, more efficient Government services and increased accountability primarily through the use of Internet technology.

Secretary's Audit Resolution Report To Congress

This information on HUD's audit resolution activity covers the fiscal year period October 1, 2000 through September 30, 2001. It is required by Section 106 of the Inspector General Act Amendments (P.L. 100-504), and provides information on the status of audit recommendations without management decisions and recommendations with management decisions but no final action. The report also furnishes FY 2001 statistics on the total number of audit reports and dollar value of disallowed costs, and the total number of audit reports and dollar value of recommendations that funds be put to better use.

Audit Resolution Highlights

For only the second time since the Inspector General first began reporting overdue management decisions, the Department ended the fiscal year with no overdue management decisions. This hallmark event was due to the high degree of collaboration between HUD's managers and the Inspector General's auditors, from the managers of HUD's smallest field offices to the top levels of Headquarters and OIG management. Maintaining this spirit of cooperation, the Offices of the Deputy Secretary, Inspector General, Chief Financial Officer and General Counsel have created an Audit Resolution Task Force to address ongoing audit issues and to improve and expedite the audit resolution process. In addition, the Chief Financial Officer is working with the Inspector General to develop a new on-line system for reaching management decisions and tracking the implementation of recommendations. This system, referred to as the Audit Resolution Corrective Action Tracking System (ARCATS), will be implemented in Fiscal Year 2002.

Management Decisions On Audit Recommendations

By statute, the Department is required to provide an acceptable management decision (an action plan with milestones) for each audit recommendation, within six-months from issuance of the related Office of Inspector General audit report.

The FY 2001 reporting period began with a total of 425 recommendations requiring a management decision. During the year, 857 new audit recommendations were added to our active workload and management decisions were made on a total of 986 recommendations. The fiscal year ended with 296 recommendations still requiring management decisions. However, there were no recommendations without management decisions beyond the six-months statutory resolution period.

Summary of Management Decisions on Audit Recommendations October 1, 2000 – September 30, 2001

Opening Inventory Requiring Decisions	425
New Audit Recommendations Requiring Decision	857
Management Decisions Made During Year	(986)
Audit Recommendations Still Requiring Decisions	296
Recommendations Beyond Statutory Resolution Period	0

Recommendations With Management Decision But No Final Action Taken

The Department began FY 2001 with an inventory of 935 management decisions requiring final action, and final action was completed on 632 of these decisions during the year. In addition, 986 new management decisions were made during the year, for which 353 final actions were completed. In total, the Department completed final action on 985 recommendations during FY 2001, and concluded the year with 952 audit recommendations with management decisions but final actions not yet completed, including 16 audit recommendations reopened during the year. Of this 952 number, 80 are under active multi-year repayment plans, which will remain open until the collection activities are completed.

Summary of Recommendations With Management Decisions and No Final Action October 1, 2000 – September 30, 2001

Opening Inventory—Final Actions Pending	935
Final Actions Taken	(632)
Final Actions Still Pending	303
Management Decisions Made During FY 2001	986
Final Actions Taken	(353)
Final Actions Still Pending	633
Sub-Total Final Actions Pending	936
Audit Recommendations Reopened During Period (Without Final Action)	16
Total Audit Recommendations Still Requiring Final Actions	952

Status of Audits With Disallowed Costs

As of October 1, 2000, there were 150 audits with management decisions on which final action had not been taken, with a dollar value of disallowed costs totaling $187 million. During FY 2001, management decisions were made for 57 audits with disallowed costs totaling approximately $59.9 million. The Department had 45 audits in which final action was taken during the fiscal year, with approximately $12.7 million in recoveries and $15.2 million in write-offs. As of September 30, 2001, there were 162 audits with disallowed costs awaiting final action, with an associated value of approximately $220 million.

Note that the Inspector General Act requires reporting at the audit report level versus the individual recommendation level. At the audit report level, disallowed costs are not recorded until all recommendations in a report are closed. When reporting is done at the more detailed recommendation level, the $220 million of disallowed costs awaiting final action are reduced by $71 million (See footnote 4).

Management Report on Final Action On Audits With Disallowed Costs For the Fiscal Year Ending 9/30/01

Classification	Number of Audit Reports	Disallowed Costs
A. Audit reports with management decisions on which final action had not been taken at the beginning of the period	150	$187,854,261
B. Audit reports on which management decisions were made during the period	57	$59,977,665
C. Total audit reports pending final action during period	207	$247,831,926
D. Audit reports on which final action was taken during the period		
1. Recoveries	37[1]	$12,692,431
(a) Collections and offsets	35	$12,213,753
(b) Property	0	$0
(c) Other	3	$478,678
2. Write-offs	29	$15,253,143
3. Total of 1 and 2	45[2]	$27,945,574
E. Audit reports needing final action at the end of the period (subtract D3 from C)	162[3]	$219,886,352
	(312)[4]	($149,133,775)

[1]Audit reports are duplicated in D.1.(a) and D.1.(c), thus the total is reduced by 1.

[2]Audit reports will not add by 21 because of partial recoveries and write-offs which are included in both D.1 and D.2.

[3]Litigation, legislation, or investigation is pending for 27 audit reports with costs totaling $44,098,861.

[4]The figures in brackets represent data at the recommendation level as compared to the report level.

Status of Audits With Recommendations That Funds Be Put to Better Use

At the beginning of the period (October 1, 2000), there were 16 audits with management decisions on which final action had not been taken with recommendations to put funds to better use (i.e., used more efficiently), with a dollar value of approximately $6.7 million. The Department had 1 recommendation for which final action was taken during the fiscal year with a dollar value of

$100,000, and 1 recommendation totaling $1 million that management concluded should not or could not be implemented. At the end of the period (September 30, 2001), there were 17 audits with recommendations to put funds to better use awaiting final action, with an associated value of approximately $9.96 million.

Management Report on Final Action on Audits with Recommendations That Funds Be Put to Better Use for the Fiscal Year Ending 9/30/01

Classification	Number of Audit Reports	Disallowed Costs
A. Audit reports with management decisions on which final action had not been taken at the beginning of the period	16	$6,673,429
B. Audit reports on which management decisions were made during the period	3	$4,644,648
C. Total audit reports pending final action during period (Total of A and B)	19	$11,318,077
D. Audit reports on which final action was taken during the period		
1. Value of recommendations implemented (completed)	2	$348,778
2. Value of recommendations that management concluded should not or could not be implemented	1	$1,005,182
3. Total of 1 and 2	2[1]	$1,353,960
E. Audit reports needing final action at the end of the period (Subtract D3 from C)	17[2]	$9,964,117
	(12)[3]	($3,608,468)

[1]Audit reports are duplicated in D.1.(a) and D.1.(c), thus the total is reduced by 1.

[2]Litigation, legislation, or investigation is pending for 4 audit reports with costs totaling $4,679,594.

[3]The figures in brackets represent data at the recommendation level as compared to the report level.

Delinquent Debt Collection

Fiscal Year Ending	Total Debt (in millions)	Delinquent Debt (in millions)	Delinquent Debt Collections (in millions)
2001	$12,788	$1,134	$1,525

During fiscal 2001, HUD collected $1.5 billion of delinquent debts. In FY 2001, Due Process Notices were sent to 4,585 delinquent debtors advising them that their debts were past due. These notices provide the debtor with the right to establish a repayment plan or appeal the enforceability of the debt through the HUD Board of Contract appeals or an Administrative Law Judge (Federal employees). Debtors who fail to make payment arrangements or successfully appeal the enforceability of the debt are referred to Treasury where they are subjected to aggressive collection efforts, including offset of federal payments. During FY 2001, the Department continued to send notices to delinquent debtors on a weekly basis.

At the end of fiscal 2001, HUD had referred 18,101 debts totaling $266 million to Treasury for offset, and total collections via offset during fiscal 2001 were $14.1 million. The Department also sent 11,292 debts totaling $170.8 million to Treasury for cross-servicing during the year, and total collections were $2.9 million.

The automated write-off process, which was instituted and utilized last fiscal year by the Title 1 Program included 4,126 cases totaling $55 million in debt for fiscal 2001. Cases targeted for this process related to those which were not to be referred to Treasury for offset or cross-servicing, and consisted of bankruptcies, deceased debtors, expired ten-year Statute of Limitations, and accounts with small balances which qualified for write-off as paid in full. The write-off decreased the Title I portfolio by 11 percent.

The Department remains committed to maximizing collections using all available resources and will continue to work closely with systems contractors and Treasury to achieve systems and process improvements necessary to maintain compliance with the Debt Collection Improvement Act. In fiscal 2001, the Department continued to refer delinquent debtors to Treasury for offset on a weekly basis and to cross-servicing on a monthly basis. HUD also completed system enhancements to electronically send, receive and process payments, fee and other fiscal data on cases at cross-servicing. With this change, the fees assessed by Treasury and Treasury's private collection agencies will be passed on to the debtors.

Management and Performance Challenges and Progress

In accordance with the Reports Consolidation Act of 2000, HUD's Annual Performance and Accountability Report "…shall include a statement prepared by the agency's inspector general that summarizes what the inspector general considers to be the most serious management and performance challenges facing the agency and briefly assesses the agency's progress in addressing those challenges." HUD's Acting Inspector General provided a statement on five management challenges for inclusion in this FY 2001 Performance and Accountability Report. HUD management agrees that the five areas identified in that statement are major challenges currently facing the Department. The full text of the HUD Office of Inspector General's FY 2001 Management and Performance Challenges statement is presented in its entirety, following the below management response on the current status of these challenges and future plans to address them.

Management Response to OIG Reported Management and Performance Challenges

HUD initiatives under the President's Management Agenda (PMA) are addressing each of the five major management and performance challenges reported by the OIG. The PMA consists of agency specific initiatives to address five interrelated government-wide goals pertaining to the strategic management of human resources, competitive sourcing of services, improved financial performance, expanded electronic government, and increased budget and performance integration. The HUD PMA initiatives pertaining to the five challenges identified by the OIG are as follows:

Challenge Areas 1 and 3: Complete Department-wide organizational changes and assure adequate and sufficiently trained HUD staff

These two challenges are being addressed under various initiatives under the PMA goals for the strategic management of human resources. HUD's June 1997 management reform plans were intended to realign the Department along functional lines, and to place greater reliance on automated tools and contracted services, to enable the Department to better utilize a reduced staffing capacity to more efficiently and effectively deliver and oversee major HUD program activities. Over the past 4 ½ years, the planned organizational and operational changes have been implemented to varying degrees, with some incremental progress and improvements realized. However, the majority of the organizational and process changes were never formally institutionalized and are still in need of delegations of authority and the issuance of current written policies and procedures to clarify organizational roles and responsibilities and provide a basis for staff training and operational consistency. Furthermore, some aspects of the organizational and staffing realignment have proven to be an ineffective use of HUD's scarce resources. Upon reexamination, decisions were made to:

- re-deploy staff in the Community Builder function to understaffed program delivery and oversight functions, where there is a more critical need,
- place processing center operations back under the control of HUD's traditional program and administrative components, to improve working relationships and strengthen accountability for resource use and results,

- loosen centralized control and empower field operating units to more effectively deal with local program issues, and
- formalize the revised organizational structure and provide current operating policies and procedures to support staff training and on-going operations.

To support these reorganization and redeployment decisions, and to provide on-going support for more effective resource management, the Department completed the implementation of the Resource Estimation and Allocation Process (REAP). REAP was used to assist in the development of HUD's FY 2002 staffing plan. The Office of Administration is in the process of identifying core competencies needed for each major career series and developing a strategy to keep critical positions filled. Also underway is the definition of career paths and appropriate training and development opportunities for major career series to support progression to professional positions within HUD.

To more effectively utilize HUD's limited staff resources and enhance HUD's monitoring of its third- party program delivery structure, a Compliance and Monitoring Training Program has trained over 1,230 field office staff in the past two years, on general management control practices and the use of risk-based monitoring techniques unique to specific HUD program areas. This training continues in FY 2002, along with the planned design and implementation of a Compliance and Monitoring Training effort directed at HUD supervisors and managers.

Challenge Area 2: Improve Financial Management Systems

HUD's most significant financial management systems deficiencies exist in the Federal Housing Administration (FHA), where the FHA still needs to convert from its commercial accounting system to a system that fully supports the Federal basis of accounting and budgeting. HUD has purchased a commercial off-the-shelf software package for this purpose, and has established plans and procured the contract services necessary to implement the new FHA system. The phased implementation plan is on schedule to implement FHA's new core general ledger system in the fall of 2002. The core FHA general ledger system will provide automated uploads of data required to produce HUD's consolidated financial statements. FHA program systems will be integrated with the new FHA general ledger system over a multi-year period. Until these systemic solutions are fully implemented, compensating ad hoc processes and controls have been put in place by FHA to convert activities to the standard general ledger accounts, provide for the administrative control of funds, and comply with credit reform requirements. Maintaining these ad hoc processes will remain a challenge until the systemic solutions are in place to better support FHA's financial management operations.

Regarding HUD's core financial management system, the Office of the Chief Financial Officer has stabilized systems operations and demonstrated the ability to produce auditable consolidated financial statements for the last two years. The OIG's audit of HUD's FY 2001 consolidated financial statements reported two prior year reportable conditions as corrected, pertaining to the reliability and security of HUD's critical financial systems and controls over fund balance with Treasury reconciliations. Nevertheless, HUD's core financial management system and accounting operations would benefit from further enhancements and integration to provide more efficient operations and a reduced risk of error. In FY 2002, the OCFO is initiating a study of the feasibility and cost-benefit of various options for improving or replacing HUD's existing core financial management system.

On the subject of HUD's grants management systems, it is important to note that HUD has no high risk, material weakness or reportable condition issues associated with its grants management. However, there are opportunities for improvements in this systems area and HUD is working with the OMB's priority interagency e-Government initiative on e-Grants to determine the future direction of HUD's grants management systems efforts.

Regarding systems security issues, HUD appreciates the OIG's acknowledgment of improvements in the area of information security, and recognizes the need for further efforts and a continuous disciplined focus on security for all systems platforms and applications. At HUD, systems security is a shared responsibility of program systems sponsors, the Office of Administration and the Office of the Chief Information Officer. Efforts are underway to better train all parties on their respective areas of responsibility, and to provide the on-going discipline necessary to continuously fulfill those responsibilities. Systems security improvements are an area tracked under the President's Management Agenda, along with the above discussed FHA systems project and OCFO systems study.

Challenge Area 4: Improve FHA single-family origination and real estate owned property oversight

Most of FHA's single family housing mortgage insurance programs are user fee programs operating out of the Mutual Mortgage Insurance (MMI) Fund. FHA manages these programs in a manner that balances program risks with the furtherance of program goals, while maintaining the financial soundness of the MMI Fund. As discussed under Strategic Goal No. 1 of this report, the MMI Fund is financially sound and the single family housing programs are contributing to record homeownership rates, with a focus on homebuyers that are underserved by the conventional market. Nevertheless, overall program performance and the condition of the Fund could be further improved if all lenders, appraisers, property managers and other participants in FHA's program delivery structure fully adhered to FHA program requirements designed to reduce program risks and further program goals. Under the President's Management Agenda, FHA has a number of initiatives in process or under development to improve the content, oversight and enforcement of its program requirements, as well as the consideration of alternative business processes. Such actions include:

- Enhance qualifications for lender participation,
- A proposed rule to include measurement of lenders who underwrite in the Credit Watch Termination Program,
- Design of a risk-based targeting model for reviews of underwriting,
- A proposed rule to strengthen lender oversight of appraisers,
- A proposed rule on appraiser qualifications and the removal of appraisers from the FHA roster,
- Establishment of an Appraiser Watch system similar to Credit Watch for lenders,

- A proposed rule to restrict excessive fees and refinancings that do not benefit the borrower,
- A proposed rule to prohibit FHA insurance on housing resales within six months,
- Proposed rules on the removal of non-performing non-profits and 203(k) Program consultants from FHA rosters,
- Implementation of the Section 601 accelerated claims demonstration authority as a possible alternative to traditional FHA note servicing and property disposition activity related to notes and properties acquired through insured mortgage defaults and claims.

Challenge Area 5: Improve the effectiveness and efficiency of public and assisted housing program administration

As evidenced by this year's performance data, HUD's considerable efforts to improve the physical conditions at HUD-supported public and assisted housing projects are meeting with success. The percentage of HUD-supported housing units at projects that met or exceeded HUD's physical condition standards rose from 82 percent to 90 percent in the past year. HUD's oversight capability, and the related performance of the third party intermediaries that administer HUD's public and assisted housing programs on HUD's behalf, are expected to further improve upon the full implementation of the Public Housing Assessment System (PHAS) and Section Eight Management Assessment Program (SEMAP) rules, and the contracted services of the Performance-Based Contract Administrators assisting in the oversight of the Office of Housing's project-based assistance programs.

HUD recognizes the continuing material management control weaknesses associated with the tenant income, rent and subsidy determinations in its public and assisted housing programs. As previously discussed in the "Financial Management Accountability" section of this report, HUD has developed a comprehensive corrective action plan to strengthen management controls to reduce subsidy overpayments and better assure that program funds serve the right persons in the right amounts. Improving the performance of housing intermediaries and the reduction of subsidy overpayments are both areas that are tracked under the President's Management Agenda.

U.S. Department of Housing and Urban Development
Office of Inspector General
451 7th St., S.W.
Washington, D.C. 20410-4500

FEB 26 2002

MEMORANDUM FOR: Mel Martinez, Secretary, S

David C. Williams

FROM: David C. Williams, Acting Inspector General, G

SUBJECT: Management and Performance Challenges

In accordance with Section 3 of the Reports Consolidation Act of 2000, the Office of Inspector General is submitting a statement to you summarizing our current assessment of the most serious management and performance challenges facing the Department of Housing and Urban Development (HUD) in fiscal year 2002 and beyond. These issues have been the focus of much of our audit and investigative effort. Our Semiannual Reports to the Congress provide more specific details.

As we reported last year, the management and performance challenges facing HUD have been present for many years. HUD is working to address these challenges and in some instances has made progress in correcting them. The Department's management challenges reported this year include the need to:

✓Complete Department-wide organizational changes.

✓Improve financial management systems.

✓Assure adequate and sufficiently trained HUD staff.

✓Improve Federal Housing Administration (FHA) single-family origination and real estate owned property oversight.

✓Improve the effectiveness and efficiency of public and assisted housing program administration.

The attachment provides a greater discussion of these challenges and the OIG's efforts to help the Department resolve these matters. It is important that HUD eliminate high risk and staff intensive programs, and assign sufficient resources to focus oversight on HUD's core mission areas.

HUD Management and Performance Challenges Fiscal Year 2002 and Beyond

Department-Wide Organizational Changes

During the previous HUD Administration, the Department underwent major organizational and management changes. The changes included the consolidation of common functions into centers, the establishment of Community Builders and a focus on enforcement. Many existing HUD employees were assigned new duties and responsibilities and many new employees were hired for hundreds of new positions. Sweeping changes were made to organizational lines of authority.

As HUD's new Administration came on-board last year, many of the organizational changes were still incomplete. Some of the changes created a pervasive tension between centralized control and local empowerment and it became evident to HUD's new management that some revised organizational changes were necessary. In this regard, efforts to realign HUD's field structure are being finalized. Other issues that need to be resolved are Real Estate Assessment Center physical inspection scores, the consolidation of all single family activities into just four Homeownership Centers (HOCS), and the continued need for a centralized enforcement operation.

Our audits and investigations have identified weaknesses brought about by delays in completing operational changes. For example, in September 2001, we testified before the House of Representatives Subcommittee on Oversight and Investigations of the Committee on Financial Services regarding the 1998 scandals of the Section 203(k) Rehabilitation Home Mortgage Insurance Program in New York City. We noted that the rapidity of the changes taking place in the single-family program during this period made HUD extremely vulnerable. Single-family staff was cut in half and those remaining in New York were transferred to the Philadelphia HOC. These staffing shifts had a direct bearing on HUD's ability to provide adequate oversight.

HUD's new management team is in the process of reexamining the changes brought about the previous administration and deciding what organizational realignments are needed to best address program needs.

Financial Management Systems

HUD needs to complete the development of adequate financial management systems. The lack of an integrated financial system in compliance with federal financial system requirements has been reported as a material weakness since fiscal year 1991. This noncompliance represents a material weakness in internal controls, and, while progress has been made in improving the Department's general ledger system (HUDCAPS), a number of long-standing deficiencies remain.

Our annual financial audits continue to report problems of inadequate systems integration. For example, there is a lack of an automated interface between the Departmental general ledger and the FHA subsidiary ledger, which necessitates extensive manual analyses, reprocessing, and additional entries. FHA's funds control process is also largely manual, even to the point of requiring the hand carrying of documents. Other serious deficiencies include the inability to timely identify excess funds on expired Section 8 projects and inadequate assurance about the propriety of Section 8 rental assistance payments. The systems solutions to these problems remain unresolved.

During the fiscal year 2001 Financial Statement Audit, we also noted another challenge for the Department in grants management. There are additional Joint Financial Management Improvement Program requirements for integrating certain transactions in the grants management systems with the core financial system. This has increased the importance of HUD's financial systems for consolidated financial reporting. However, the Department's efforts to implement the necessary grants management systems have made little progress to date.

To correct financial management deficiencies in a Department-wide manner, HUD initiated a project to design and implement an integrated financial system consisting of both financial and mixed systems. Over the years, the Department's plans have experienced significant schedule delays, changes in direction and cost overruns. Because of the many concerns we have raised in our audits, the Department is proceeding cautiously. The Department is planning to contract for a feasibility study and cost benefit and risk analyses to help it identify the best platform for its integrated financial system. In the meantime, the project to improve the FHA subsidiary accounting systems has made little progress because of necessary procurement delays.

HUD's security program and practices is another issue critical to HUD's financial systems. In accordance with the requirements of the Government Information Security Reform Act, the OIG performed its annual evaluation of HUD's security program and practices and found that the security monitoring program still needs strengthening, the information security program lacks executive level leadership and direction, and previously reported weaknesses in management, operational, and technical controls remain uncorrected. As a result, the absence of an effective entity-wide security program, proactive leadership from the Office of the Chief Information Officer (OCIO), and adequate management, operational, and technical controls may lead to insufficient protection of sensitive or critical resources and compromise the integrity, confidentiality, reliability, and availability of information maintained in HUD's systems.

HUD has a draft plan for establishing and maintaining an effective, comprehensive information technology security program at HUD. Our review found improvements in information security. Also, during fiscal year 2001, HUD initiated the planning and program development for an entity-wide security awareness and training program. Despite these improvements, the Department has still not placed adequate emphasis on information security.

Adequate and Sufficiently Trained Staff

HUD's fiscal year 1999 Annual Performance Plan noted that the Department no longer had a system for measuring work and reporting time, and that HUD lacked a single integrated system to support resource allocation. HUD worked with the National Academy of Public Administration (NAPA) to develop a methodology or approach for resource management that would allow the Department to identify and justify its resource requirements for effective and efficient program administration and management.

HUD needs to more effectively manage its limited staff resources. Many of the weaknesses facing HUD, particularly those concerning HUD's oversight of program recipients, are exacerbated by HUD's resource management shortcomings. Accordingly, we consider it critical for the Department to address these shortcomings through the successful completion of ongoing plans. To operate properly and hold individuals responsible for performance, HUD needs to know that it has the right number of staff with the proper skills.

We reported in prior years that HUD had not developed a comprehensive strategy to manage its resources. To address staffing imbalances and other human capital challenges, the Department has implemented the Resource Estimation and Allocation Process (REAP). The last phase of REAP (a baseline for staffing requirements) was completed in December 2001. The next step in development of the Department's resource management strategy is the implementation of the Total Estimation and Allocation Mechanism (TEAM). TEAM is the validation component of REAP and will collect actual workload accomplishments and staff usage data for comparison against the REAP baseline. TEAM is scheduled for implementation in the Spring of fiscal year 2002.

FHA Single Family Origination and Real Estate Owned (REO) Oversight

Procedures and practices pertaining to HUD's Single Family Loan Origination Program have undergone considerable change, particularly in the last 5 years. The changes have been both programmatic and organizational, including significant changes in loan underwriting requirements and the transfer of virtually all aspects of Single Family production and program monitoring from HUD staff to lenders and contractors under the oversight of HUD's Homeownership Centers.

A comprehensive audit of FHA loan origination practices two years ago found significant problems with FHA's reviews of lender underwriting and property appraisals. Also, the monitoring of lenders by the Quality Assurance Division was deficient. We noted problems with the oversight of pre-endorsement contractors, and the accuracy of information in the automated tracking system. These weaknesses increase HUD's risk of losses and can result in inflated appraisals, fraudulent underwriting, property flipping and other lending abuses. OIG audits and investigations continue to result in indictments and convictions in FHA fraud schemes. These fraudulent activities are occurring at the same time that FHA delinquencies are rising. HUD's procedures for monitoring both lenders and contractors were less than effective, resulting in an increased risk of fraud, waste and abuse.

More recently, we looked at the participation of not-for-profits in HUD Single Family Programs. The audit found that the Department was receiving little or no benefit from discounted sales of REO properties to not-for-profits. In many cases, not-for-profits were fronts for profit-motivated entities, or were unduly influenced by realtors, consultants, investors, contractors, and lenders that stood to profit from the discounted transaction. Discounted sales should have reduced the ultimate costs to low- and moderate-income homebuyers.

The audit of FHA's fiscal year 2001 financial statements includes a reportable condition on the need for improvement in early warning and loss prevention for FHA single family insured mortgages. FHA continues to make progress in improving its ability to monitor its insured portfolio. However, as of September 30, 2001, FHA had not yet fully implemented certain initiatives to effectively identify and manage risks in its single family insured portfolio. FHA needs to increase its use and analysis of other data now available to continue improvements in lender monitoring. Timely identification of lenders with above average early default rates is a key element of FHA's efforts to target monitoring and enforcement resources to single family insured mortgages and lenders that represent the greatest financial risks to FHA. Potentially problem lenders must be identified before FHA can institute loss mitigation techniques and lender enforcement measures that can reduce eventual claims.

FHA contracted for the management and marketing (M&M) of its Single Family properties in March of 1999. Seven companies received awards for the 16 M&M contracts to manage HUD's Single Family property inventory. The objective of the contracts was to reduce the inventory in a manner that: "(1) expands home ownership, (2) strengthens neighborhoods and communities, and (3) ensures a maximum return to the mortgage insurance fund." Our audits have shown that HUD needs to do more to strengthen its M&M contractor monitoring and follow-up procedures. We found performance deficiencies were not being corrected and HUD property conditions declined. HUD staffs were ill equipped to manage the voluminous amount of paperwork associated with M&M contractors. The audit of FHA's fiscal year 2001 financial statements concluded that the monitoring and performance of the M&M contractors tasked with managing and selling properties continues to need improvement.

Public and Assisted Housing Program Administration

HUD provides housing assistance funds under various grant and subsidy programs to multifamily project owners (both nonprofits and for profit) and Housing Authorities (HAs). These intermediaries, in-turn, provide housing assistance to benefit primarily low-income households. HUD spent about $21 billion in fiscal year 2001 to provide rent and operating subsidies that benefited over 4 million households. Weaknesses exist in HUD's control structure such that HUD cannot be assured that these funds are expended in accordance with the laws and regulations authorizing the grant and subsidy programs.

The Office of Public and Indian Housing (PIH) provides funding for rent subsidies through its public housing operating subsidies and tenant-based Section 8 rental assistance programs. These programs are administered by HAs who are to provide housing to low-income families or make assistance payments to private owners who lease their rental units to assisted families.

The Office of Housing administers a variety of assisted housing programs including parts of the Section 8 program and the Section 202/811 programs. These subsidies are called "project-based" subsidies because they are tied to particular properties, therefore tenants who move from such properties may lose their rental assistance. This is a significant responsibility because of the sizable number of project owners HUD must monitor.

For many years we have reported on material weaknesses with the monitoring of HAs and multifamily projects. These monitoring weaknesses seriously impact HUD's ability to ensure that its intermediaries are correctly calculating housing subsidies. This material weakness was first reported in our financial audit in 1991 and it has been reported in every audit thereafter. The Secretary has made the reduction of subsidy overpayments a top priority of his Administration.

A recent study of rent determinations under housing assistance programs estimates that errors made by intermediaries result in substantial subsidy overpayments and underpayments. Using a statistical sample of tenant files, tenant interviews, and income verification data, the study concluded that projected subsidy overpayments of about $1.7 billion and underpayments of about $0.6 billion annually. Payment errors of this magnitude take on added significance in light of HUD's estimate of 4.9 million unassisted households that pay more than half of their income for housing or live in severely substandard housing.

We agree with HUD's initial efforts to address the incorrect rental subsidy determinations. HUD has undertaken initiatives such as (1) providing the housing authorities (HA) the information on the problems associated with rental subsidy determinations, (2) making available a guidebook on the requirements of housing choice voucher, and (3) conducting reviews of rental determinations during some on-site monitoring reviews. However, it will be another two years before all of HUD's planned corrective actions are implemented to fully address the problems. In addition, it may take several more years before the success of these actions will be known.

During fiscal year 2001, HUD continued to implement its performance oriented, risk based strategy for carrying out its HA oversight responsibilities. As noted in previous years, further improvements need to be made in the field offices' monitoring of its HAs in key areas. As in previous years, we could not fully assess HUD's measures aimed at improving oversight of HAs since the Department's plans to monitor and improve performance are not yet fully developed and continue to experience delays. Finally, HUD has been slow to implement additional strategies needed to improve the quality control over the rental assistance subsidy determinations. Nevertheless, we do believe that some of the initiatives are positive.

In prior years we have also reported on long-standing weaknesses with the processing of subsidy payment requests under the project-based programs administered by the Office of Housing. Historically, this process has been hampered by the need for improved information systems to eliminate manually intensive review procedures that HUD has been unable to adequately perform.

Office of Housing or Contract Administrator (CA) staff are to perform management reviews to monitor tenant eligibility and ensure accurate rents are charged at multifamily projects. The primary tool available to HUD is to conduct on-site reviews that assess the owners' compliance with HUD's occupancy requirements. HUD's continued implementation of the CA initiative resulted in a substantial increase in the total number of management reviews conducted during fiscal year 2001 compared with the previous year. However at the end of fiscal year 2001, reviews were performed at only a small portion of that part of the portfolio. A comprehensive plan needs to be developed that would result in an increase of on-site reviews that would assess and ensure that all owners of assisted multifamily projects comply with HUD's occupancy requirements.

HUD's plans include a variety of continuing efforts. Principle among these are: continued implementation of the CA initiative; increased enforcement efforts; implementation of more targeted risk management of reinspections of properties; better use of mortgagee inspectors; increased frequency of management/occupancy reviews for assisted projects; and development of an integrated risk reporting system.

We support the plans to increase the frequency of management/occupancy reviews for the assisted portfolio and suggest that similar to the approach to physical reinspections, they be performed more frequently for troubled and potentially troubled projects, and that occupancy review work be emphasized. We applaud HUD's efforts in implementing the Rental Housing Integrity Improvement Program and support the continued progress in addressing improper payments. Finally, we recommend the development of an integrated risk reporting system. This will enable the coordinated use of all monitoring tools that can be used throughout the year to successfully manage risk for insured and assisted projects.

Financial Information

Analysis of Financial Condition and Results

This section covers:

Analysis of Financial Position

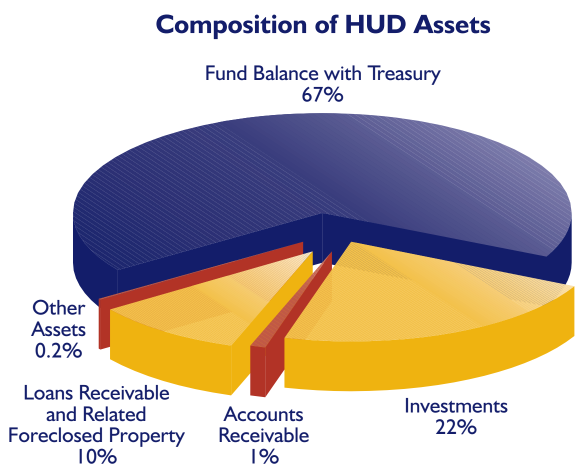
Analysis of Off-Balance-Sheet Risk

Summarized Financial Data (Dollars in Millions)

	2001	2000*
Total Assets at End of FY	$109,195	$106,332
Total Liabilities at End of FY	$27,641	$31,833
Net Position at End of FY	$81,554	$74,499
FHA Insurance-In-Force	$555,463	$544,601
Ginnie Mae MBS Guarantees	$604,300	$603,500
Non-FHA/Ginnie Mae Commitments	$87,499	$90,762

Analysis of Financial Position

Composition of HUD Assets



HUD's fiscal 2001 Total Assets of $109.2 billion are predominantly comprised of its fund balance with Treasury ($73.3 billion) and investments ($24.0 billion). The fund balance represents HUD's aggregate amount of funds available to make authorized expenditures and pay liabilities.

Investments of $24.0 billion primarily consist of investments by FHA's MMI/CMHI Fund and by Ginnie Mae, in non-marketable market-based Treasury interest-bearing obligations.

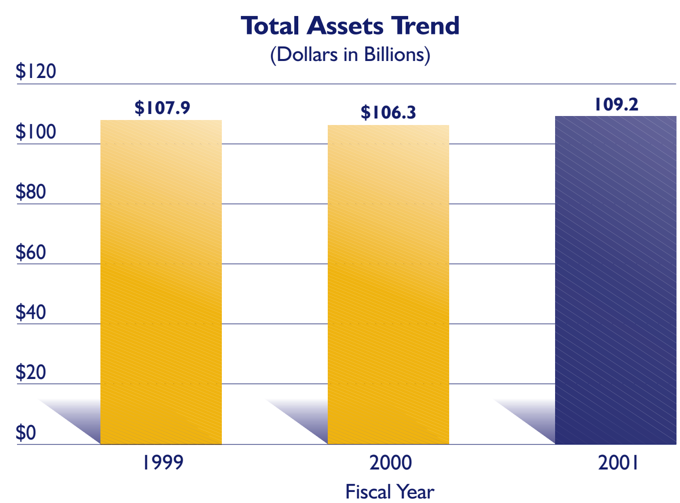
Accounts Receivable of $772 million primarily consist of bond refunding due to refinancing of tax exempt 20-40 year bonds (originally issued in 1970s and early 1980s) related to Section 8 contracts and premiums receivable related to FHA insurance programs.

Loans Receivable and Related Foreclosed Property of $10.9 billion are generated by HUD's support of construction and rehabilitation of low rent housing, principally for the elderly and disabled under the Section 202/811 program and FHA credit program receivables.

Other Assets of $262 million include cash; other monetary assets; property, plant, and equipment; and other assets.

Trends in Assets

Total Assets increased 2.7 percent ($2.9 billion) from $106.3 billion at September 30, 2000, to $109.2 billion at September 30, 2001.



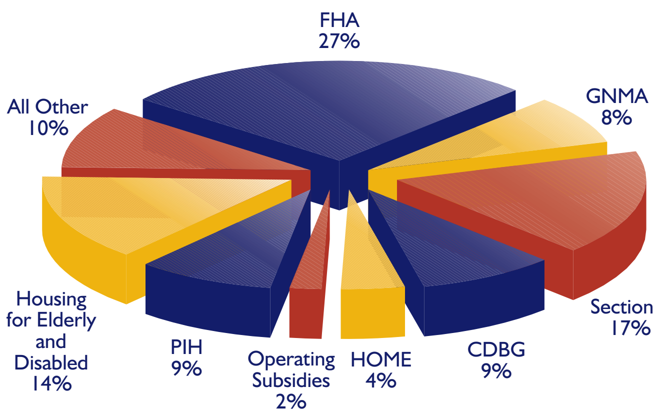
*This analysis reflects adjustments made to HUD's total assets and liabilities in fiscal 2000 financial statements. The details of this adjustment are included in Footnote 7

The net increase was due primarily to an increase of 3.8 percent ($2.7 billion) in fund balance with Treasury from $70.6 billion at September 30, 2000, to $73.3 billion at September 30, 2001. The increase was offset slightly by a decrease of $159 million in accounts receivable and $169 million in loans receivable and related foreclosed property.

Assets by Responsibility Segments

HUD's $2.7 billion fund balance increase was due primarily to fund balance increases in the following programs: FHA ($907 million), Ginnie Mae ($425 million), Section 8 ($290 million), and HOME ($372 million). The only HUD program that did not experience a fund balance increase was PIH, whose balance decreased by $187 million primarily attributable to increased program expenditures that consumed both new appropriations and portions of pre-existing funding during fiscal 2001.

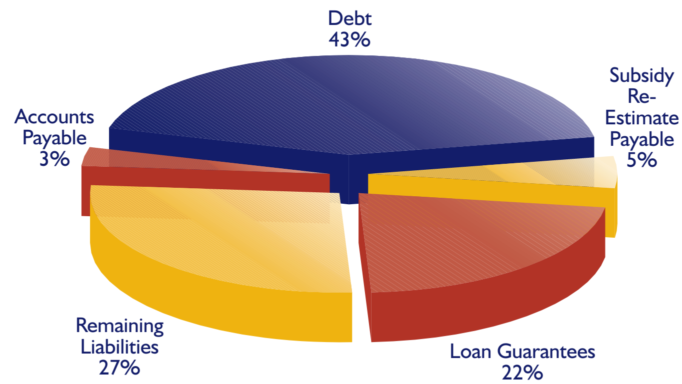
Assets by Responsibility Segments



Composition of HUD Liabilities

HUD's Total Liabilities of $27.6 billion consists of $11.7 billion in debt, $6.1 billion in loan guarantee liabilities, $1.4 billion in subsidy re-estimate payable, $1.0 billion in accounts payable, and $7.5 billion in other liabilities. HUD's debt in the chart above includes intra-governmental debt of $9.2 billion and debt held by the public of $2.5 billion. The intra-governmental debt consists of loans from the Treasury, Public Housing Authority (PHA), Tribally Designated Housing Entity (TDHE), Federal Financing Bank, and debentures issued by FHA in lieu of cash disbursements to pay claims. HUD's debt held by the public consists of new housing authority bonds and FHA debentures issued to the public at par.

Composition of HUD Liabilities



Accounts Payable consist primarily of pending grants payments and cash claims for single family properties and multifamily mortgage notes assigned.

Loan Liability Guarantees (LLG) consist of:

- Loan guarantees related to credit reform (committed on or after October 1, 1991) computed as the present value of anticipated cash outflows, such as claim payments for defaults, premium refunds, property expense for on-hand properties and sale expense for sold properties, less anticipated cash inflows such as premium receipts, proceeds from asset sales and principal and interest on Secretary-held notes;

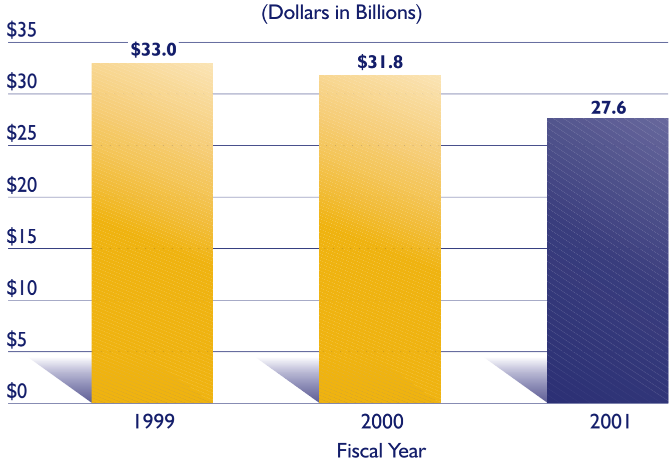
- Pre-Credit Reform loan guarantees are computed using the net realizable value method. The LLG for pre-Credit Reform Single Family mortgage insurance includes estimates for defaults that have taken place, but where claims have not yet been filed with FHA. In addition, the LLG for pre-Credit Reform Multifamily insured mortgages includes estimates for defaults, which are considered probable but have not been reported to FHA.

Remaining Liabilities of $7.5 billion consist primarily of unearned premiums, insurance liabilities, loss reserves, and other liabilities.

Trends in Liabilities

Total Liabilities decreased 13.2 percent ($4.2 billion) from $31.8 billion at September 30, 2000, to $27.6 billion at September 30, 2001.

Total Liabilities Trend
(Dollars in Billions)

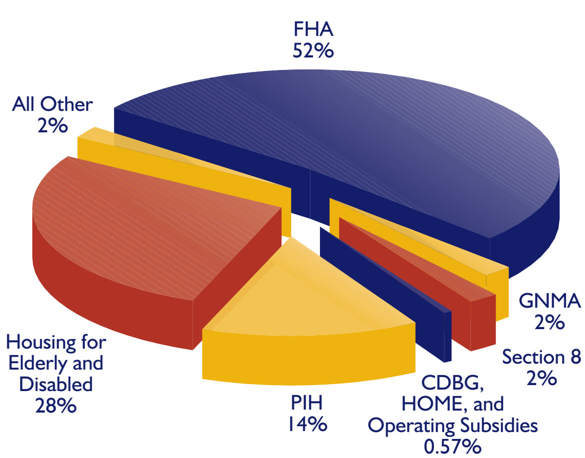


The decrease was due primarily to a $3.5 billion decrease in debt and a $1.5 billion decrease in loan guarantees liability.

Liabilities by Responsibility Segments

The $3.5 billion decrease in HUD debt (repayments exceed new borrowings) was primarily due to a $2.6 billion decrease in FHA debt and a $ 0.6 billion decrease in Housing for Elderly and Disabled program debt. The $1.5 billion decrease in loan guarantees was due to an overall decrease in loan guarantees for FHA programs

Liabilities by Responsibility Segments



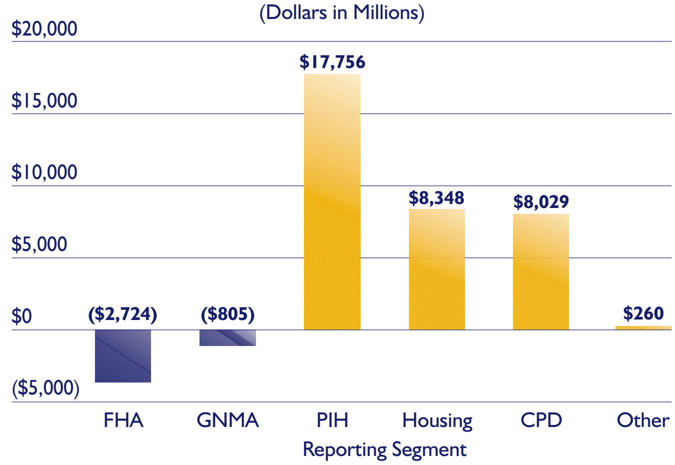
Net Position

HUD's Net Cost of Operations, Financing Sources, and Change in Unexpended Appropriations combine to determine the Net Position at the end of the year. HUD's fiscal 2001 Net Position of $81.6 billion represents a 9 percent ($7 billion) increase over fiscal 2000. This increase is primarily attributable to a $4.6 billion increase in cumulative results of operations (Financing Sources in excess of Net Cost of Operations) and a $2.4 billion increase in Unexpended Appropriations.

Net Cost of Operations

HUD's Net Cost of Operations consists of total costs, including direct and indirect program costs, as well as general Department costs, offset by program exchange revenues (in exchange for HUD services provided).

Net Cost Reporting Segment
(Dollars in Millions)



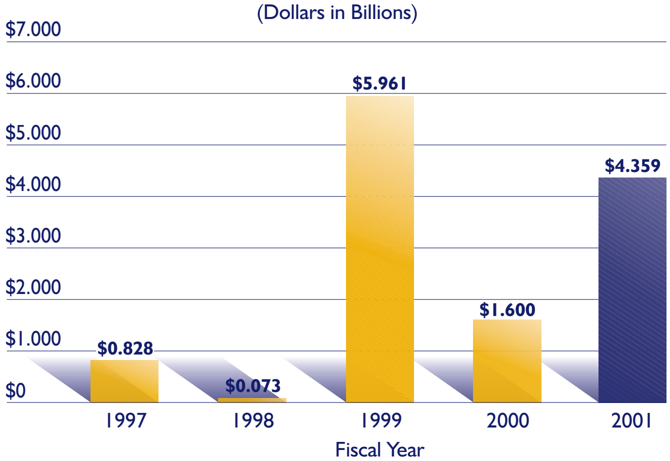
HUD's total Net Cost for fiscal 2001 was $30.8 billion. Of this amount, 54 percent ($16.8 billion) was spent in support of the Section 8 program (administered jointly by the Housing, Community Planning and Development (CPD), and Public and Indian Housing (PIH) programs). Total HUD Net Costs were offset predominantly by an FHA surplus of $2.7 billion, attributable to FHA's downward re-estimate of the anticipated long-term costs of its insurance programs.

Financing Sources

As shown in HUD's Statement of Changes in Net Position, HUD's financing sources (other than exchange revenues contributing to Net Cost) for fiscal 2001 totaled $35.2 billion. This amount is comprised primarily of $36.2 billion in Appropriations Used, offset by approximately $1 billion in net transfers out. The transfers out consists of new FHA negative subsidy endorsements and credit subsidy downward re-estimates.

Net Results of Operations

The combined effect of HUD's Net Cost of Operations and Financing Sources resulted in a 172 percent increase in Net Results of Operations to $4.4 billion during fiscal 2001. The significant year-to-year fluctuation shown below is due primarily to the annual re-estimation of long-term credit program costs, which can be impacted by both program performance and economic forecasts.



Unexpended Appropriations

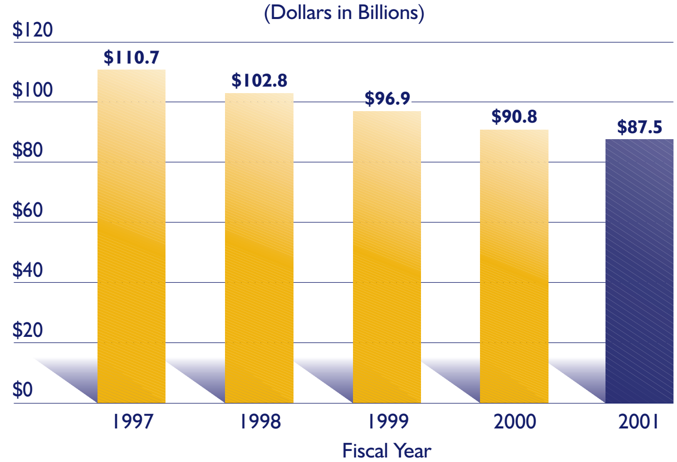
HUD's unexpended appropriations, which increased 4 percent ($2.4 billion) to $63.3 billion in fiscal 2001, represents the accumulation of appropriated funds not yet disbursed, and can change as the fund balance with Treasury changes. A significant portion of these unexpended funds is attributable to long-term commitments as discussed in the following section.

Analysis of Off-Balance-Sheet Risk

The financial risks of HUD's credit activities are due primarily to managing FHA's insurance of mortgage guarantees and Ginnie Mae's guarantees of mortgage-backed securities. Financial operations of these entities can be affected by large unanticipated losses from defaults by borrowers and issuers and by an inability to sell the underlying collateral for an amount sufficient to recover all costs incurred.

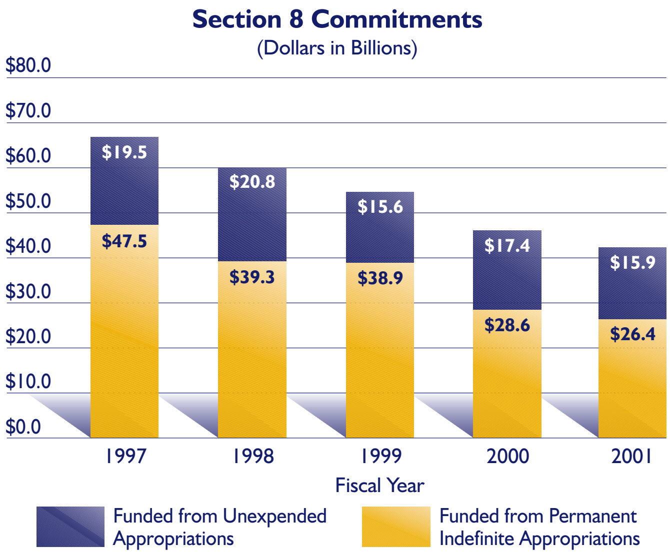
Contractual and Administrative Commitments

HUD's contractual commitments of $87.5 billion in fiscal 2001 represents HUD's commitment to provide funds in future periods under existing contracts for its grant, loan, and subsidy programs. Administrative Commitments (reservations) of $5.9 billion relate to specific projects for which funds will be provided upon execution of the related contract.



These commitments are primarily funded by a combination of unexpended appropriations and permanent indefinite budget authority, depending on the inception date of the contract. HUD draws on permanent indefinite budget authority to fund the current year's portion of contracts entered into prior to fiscal year 1988. Since fiscal 1988, HUD has been appropriated funds in advance for the entire contract term in the initial year, resulting in substantial increases and sustained balances in HUD's unexpended appropriations.

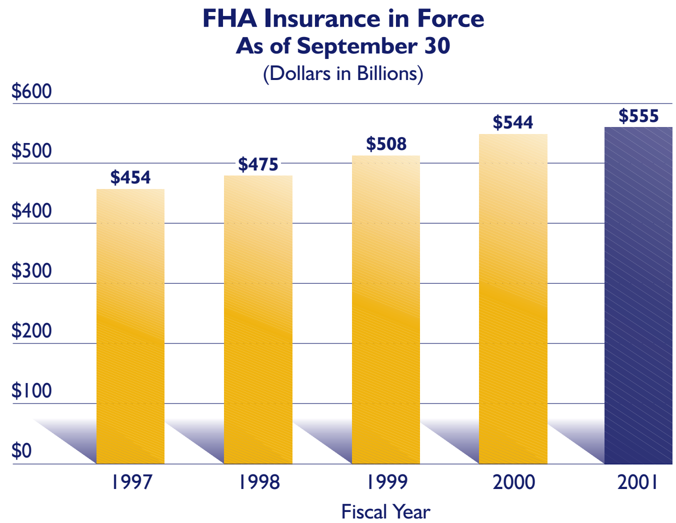
Total commitments (administrative and contractual) decreased $3.9 billion or 4 percent during fiscal 2001. The majority of this change is attributable to a decrease of $3.7 billion in Section 8 contractual commitments.



To contain the costs of future Section 8 contract renewals, the Department began converting all expiring contracts to 1-year terms during fiscal 1996. By changing to 1-year contract terms, HUD effectively reduced the annual budget authority needed from Congress to fund the subsidies while still maintaining the same number of contracts outstanding.

FHA Insurance in Force

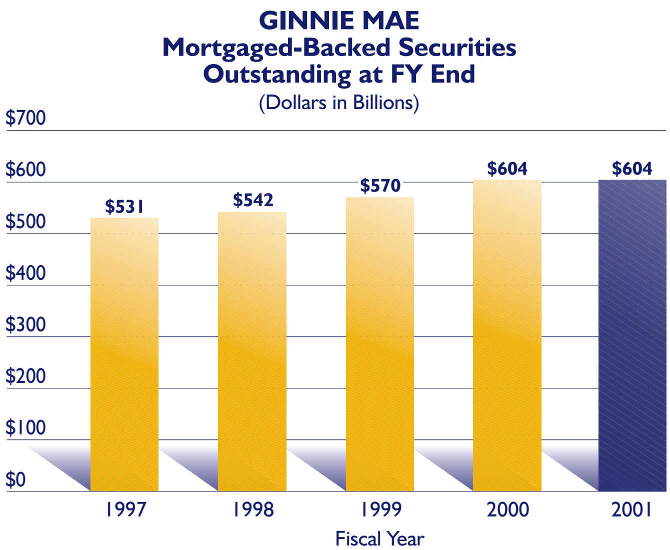
FHA's total insurance-in-force increased $11 billion or 1.99 percent from $544 billion in fiscal 2000 to $555 billion in fiscal 2001. Most of this increase was due to a $9.7 billion increase in the Mutual Mortgage Insurance (MMI) fund, which comprises 83 percent of FHA's total insurance-in-force.



Ginnie Mae Guarantees

Ginnie Mae financial instruments with off-balance sheet risk include guarantees of Mortgage Backed Securities (MBS) and commitments to guaranty MBS. The securities are backed by pools of FHA-insured, RHS-insured, and VA-guaranteed mortgage loans. Ginnie Mae is exposed to credit loss in the event of non-performance by other parties to the financial instruments. The total amount of Ginnie Mae guaranteed securities outstanding at September 30, 2001, was approximately $604.3 billion. However, Ginnie Mae's potential loss is considerably less, because the FHA and RHS insurance and VA guaranty serve to indemnify Ginnie Mae for most losses. Also, as a result of the structure of the security, Ginnie Mae bears no interest rate or liquidity risk.

During the mortgage closing period and prior to granting its guaranty, Ginnie Mae enters into commitments to guaranty MBS. The commitment ends when the MBS are issued or when the commitment period expires. Ginnie Mae's risks related to outstanding commitments are much less than for outstanding securities due, in part, to Ginnie Mae's ability to limit commitment authority granted to individual issuers of MBS. Outstanding commitments as of September 30, 2001, were $42.8 billion.



Generally, Ginnie Mae's MBS pools are diversified among issuers and geographic areas. No significant geographic concentrations of credit risk exist; however, to a limited extent, securities are concentrated among issuers.

In fiscal 2001, Ginnie Mae issued a total of $67.4 billion in its multi-class securities program. The estimated outstanding balance at September 30, 2001, was $165.6 billion. These guaranteed securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the MBS program.

Independent Auditor's Report on the Financial Statements

INDEPENDENT AUDITOR'S REPORT

To the Secretary,
U.S. Department of Housing and Urban Development:

In accordance with the Chief Financial Officers (CFO) Act of 1990, we have audited the accompanying consolidated balance sheets of the Department of Housing and Urban Development (HUD) as of September 30, 2001 and 2000, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources and financing for the fiscal years then ended. The objective of our audit was to express an opinion on the fair presentation of these principal financial statements. In connection with our audit, we also considered HUD's internal control over financial reporting and tested HUD's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its principal financial statements[1] .

Opinion on the Financial Statements

In our opinion, the accompanying principal financial statements present fairly, in all material respects, the financial position of HUD as of September 30, 2001 and 2000 and the net costs of operations, changes in net position, status of budgetary resources, and reconciliation of net costs to budgetary obligations for the fiscal years then ended, in conformity with generally accepted accounting principles.

Our audit also disclosed:

- Material weaknesses in internal controls in fiscal year 2001 related to the need to:
  - complete improvements to financial systems;
  - improve oversight and monitoring of housing subsidy determinations;
  - ensure that rental subsidies are based on correct tenant income;
  - improve Federal Housing Administration's (FHA) controls over budget execution and funds control; and
  - enhance FHA information technology systems to more effectively support FHA's business processes.

- Reportable conditions in internal controls in fiscal year 2001 related to the need to:
  - refine performance measures to effectively implement results management;
  - improve controls over project-based subsidy payments;
  - strengthen controls over HUD's computing environment;
  - improve personnel security for systems' access;
  - improve processes for reviewing obligation balances;
  - more effectively manage controls over the FHA systems' portfolio;
  - place more emphasis on monitoring lender underwriting and improving early warning and loss prevention for FHA single family insured mortgages;
  - sufficiently monitor FHA's single family property inventory; and
  - improve FHA's process for preparing timely estimates and properly reporting credit subsidy adjustments.

Most of these control weaknesses were reported in prior efforts to audit HUD's financial statements and represent long-standing problems. In this *Fiscal Year 2001 Accountability Report*, HUD reports that it complied with Section 2 of the Federal Managers' Financial Integrity Act (FMFIA), with the exception of the material weaknesses and nonconformances specifically identified in that report. Section 2 and related guidance re-

[1] This report is a condensed version of a more detailed report issued separately on February 27, 2002 by HUD, OIG entitled, "Audit of U.S. Department of Housing and Urban Development Financial Statements for Fiscal Years 2001 and 2000" (2002-FO-0003). The report is available at HUD, OIG's Internet site at http://www.hud.gov/oig/oigindex.html.

quire that: (1) an agency's internal accounting and administrative controls provide reasonable assurance that obligations and costs are in compliance with applicable laws; (2) funds, property and assets are adequately safeguarded; and (3) revenues and expenditures are properly and reliably accounted for and reported. HUD was unable to report compliance with Section 4, which requires that accounting systems conform to the accounting principles and standards mandated by the Comptroller General of the United States. For fiscal year 2000 and prior years, we disagreed with the Department's statement of overall assurance in the Department's *Accountability Reports*. HUD's compliance determinations did not fully consider the magnitude of the problems HUD acknowledges in its own FMFIA process. As permitted by the Reports Consolidation Act of 2000 (PL 106-531), HUD did not prepare a separate FMFIA report for fiscal year 2001 and is addressing those reporting requirements in this *Fiscal Year 2001 Performance and Accountability Report.* Given the magnitude of the problems that still remain, we continue to believe that an FMFIA statement of noncompliance would be appropriate for HUD.

Our findings also include the following instances of non-compliance with applicable laws and regulations:

- HUD did not substantially comply with the Federal Financial Management Improvement Act (FFMIA). In this regard, HUD's financial management systems did not substantially comply with (1) Federal Financial Management Systems Requirements, (2) applicable accounting standards, and (3) the U.S. Standard General Ledger (SGL) at the transaction level.

- HUD did not comply with the United States Housing Act of 1937, as amended by the Quality Housing and Work Responsibility Act of 1998. Specifically, HUD is not timely or properly enforcing the act's requirements for the timely expenditure and obligation by housing agencies (HA) of public housing modernization/capital funds. As discussed later, HUD disagreed with our conclusion when we first reported this matter, and as a result, we referred the matter to the Comptroller General of the United States.

Consolidating Financial Information

We conducted our audit for the purpose of forming an opinion on the fiscal years 2001 and 2000 principal financial statements taken as a whole. HUD has presented consolidating balance sheets, and related consolidating statements of net cost and changes in net position, and combining statements of budgetary resources and financing as supplementary information in this *Fiscal Year 2001 Performance and Accountability Report.* The consolidating and combining financial information is presented for purposes of additional analysis of the financial statements rather than to present the financial position, changes in net position, status of budgetary resources, and reconciliation of net costs to budgetary obligations of HUD's major activities. The consolidating and combining financial information is not a required part of the principal financial statements. The financial information has been subjected to the auditing procedures applied to the principal financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Required Supplementary Information

In this *Fiscal Year 2001 Performance and Accountability Report*, HUD presents "Required Supplemental Stewardship Information," specifically information on investments in non-federal physical property and human capital. In addition, HUD presents a "Discussion and Analysis of Operations" and information on intra-governmental balances. This information is not a required part of the basic financial statements but is supplementary information required by the Federal Accounting Standards Advisory Board and Office of Management and Budget (OMB) Bulletin 01-09, *Form and Content of Agency Financial Statements*. We did not audit and do not express an opinion on this information, however we have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplementary information. In accordance with guidelines required by the January 7, 2000 technical amendments to OMB Bulletin 97-01, the Department, through confirmations, reconciled their intragovernmental transactions with their trading partners with immaterial differences.

Additional details on our findings regarding HUD's internal control environment, housing assistance program delivery, verification of subsidy payments, and system and accounting issues are summarized below and were provided in a separate report to HUD management. These additional details also augment the discussions of instances in which HUD had not complied with applicable laws and regulations; the information regarding our audit objectives, scope, and methodology; and recommendations to HUD management resulting from our audit.

Issues with HUD's Internal Control Environment

Most of the material weaknesses and reportable conditions discussed in this report relate to issues discussed in prior years' reports on HUD's financial statements. HUD has been taking actions to address the weaknesses and in some instances has made progress in correcting them. For the most part, progress has been at a slow pace because HUD needs to address issues that fundamentally impact its internal control environment. These issues are Department-wide in scope and must be addressed for HUD to more effectively manage its programs. We have reported for the past several years that HUD has made progress toward overhauling its operations and addressing its management problems through these efforts, but challenges remain. As discussed below, HUD's ability to address its problems will substantially improve if it completes the efforts to:

- deploy a reliable financial management system that meets its program and financial management needs and complies with federal requirements, and
- develop a process to identify and justify its staff resource requirements.

The most critical need faced by HUD in improving its control environment is to complete development of adequate systems. The lack of an integrated financial system in compliance with federal financial system requirements has been reported as a material weakness since fiscal year 1991. To correct financial management deficiencies in a Department-wide manner, HUD initiated a project to design and implement an integrated financial system consisting of both financial and mixed systems. Over the years, the Department's plans have experienced significant schedule delays, changes in direction and cost overruns.

In addition to improving its financial systems, HUD will need to more effectively manage its limited staff resources. Many of the weaknesses discussed in this report, particularly those concerning HUD's oversight of program recipients, are exacerbated by HUD's resource management shortcomings. Accordingly, we consider it critical for the Department to address these shortcomings through the successful completion of ongoing plans.

In our separate report, we elaborate on the need for improved systems and resource management. In addition, we discuss the need for HUD to improve performance measures for its programs.

Housing Assistance Program Delivery

HUD provides housing assistance funds under various grant and subsidy programs to multifamily project owners (both nonprofits and for profit) and HAs. These intermediaries, in-turn, provide housing assistance to benefit primarily low-income households. HUD spent about $21 billion in fiscal year 2001 to provide rent and operating subsidies that benefited over 4 million households. Weaknesses exist in HUD's control structure such that HUD cannot be assured that these funds are expended in accordance with the laws and regulations authorizing the grant and subsidy programs.

Legislation authorizing HUD's housing assistance programs includes specific criteria concerning tenant eligibility and providing assistance for housing that meets acceptable physical standards. Moreover, legislation authorizing HUD's programs also establishes minimum performance levels to be achieved. For example, subsidized housing must comply with HUD's housing quality standards.

HUD relies heavily upon intermediaries to ensure that rent calculations for assisted households are based on HUD requirements. Ultimately, these rent calculations determine the amount of subsidy HUD pays on behalf of the assisted household. Under project-based programs administered by the Office of Housing, the individual project owners or agents carry out this responsibility. Under public housing and tenant-based Section 8 programs, the HAs determine eligibility and rent amounts for eligible households residing in public housing or at approved housing provided by private landlords. In prior reports on HUD's financial statements, we have expressed concerns about the significant risk to HUD that these intermediaries are not properly carrying out this responsibility. HUD's control structure does not adequately address this risk due to insufficient on-site monitoring along with the absence of an on-going quality control program that would periodically assess the accuracy of intermediaries' rent determinations.

A recently completed contracted study of rent determinations under HUD's major housing assistance programs estimates that errors made by project owners and HAs resulted in substantial subsidy overpayments and underpayments. The purpose of the study was to provide national estimates of the extent, severity, costs, and sources of errors occurring in the certification and recertification procedures used by HAs and owners in calculating tenant rents. The study projected that annually, about $1.7 billion in subsidies was overpaid on behalf of households paying too little rent and about $0.6 billion in subsidies was underpaid on behalf of households paying too much rent based on HUD requirements.

Verification of Subsidy Payments

As discussed above, HUD provides rent and operating subsidies through a variety of programs, including public housing and Section 8. The admission of a household to these rental assistance programs and the size of the subsidy it receives depend directly on the household's self-reported income. HUD matched computer income with its assisted housing universe and estimated that housing subsidy overpayments from tenants misreporting their income totaled $978 million during calendar year 2000. Tenants often do not report income or under report income which, if not detected, causes HUD to make excessive subsidy payments. Tenant income is a major factor affecting eligibility for, and the amount of, housing assistance a family receives, and indirectly, the amount of subsidy HUD pays. Generally, HUD's subsidy payment makes up the difference between 30 percent of a household's adjusted income and the housing unit's actual rent or, under the Section 8 voucher program, a payment standard.

In fiscal year 2001, HUD initiated the Rental Housing Integrity Improvement Project, which calls for systems capability that will identify relevant tenant and program data for rent calculations, and requires the data to be submitted by HAs. HUD would use the data to identify possible HAs certification or re-certification processing deficiencies. This increased capability and information could also make the large-scale computer match a viable option for identifying excess rental subsidy or tenant overpayments.

System and Accounting Issues

In our earlier discussion of concerns we have with HUD's internal control environment, we stressed the need for HUD to complete on-going efforts to improve its financial systems. Because of the large volume of financial transactions, HUD relies heavily on automated information systems. In prior years, we reported on security weaknesses in both HUD's general processing and specific applications such that HUD could not be reasonably assured that assets are adequately safeguarded against waste, loss, and unauthorized use or misappropriation. Progress in improving these controls has been slow. The weaknesses noted in our current audit relate to the need to improve:

- controls over the computing environment; and
- administration of personnel security operations.

We also noted the need for HUD to improve its processes for reviewing outstanding obligations to ensure that unneeded amounts are deobligated in a timely manner. Major deficiencies include:

- Specific statutory or grant requirements for outstanding obligations are not being enforced.
- A lack of integration between accounting systems and the need for accurate databases has hampered HUD's ability to evaluate unexpended Section 8 project-based obligations.

Results of the Audit of FHA's Financial Statements

A separate audit was performed of FHA's fiscal year 2001 and 2000 financial statements by the independent certified public accounting firm of KPMG LLP. Their report on FHA's financial statements, dated January 31, 2002,[2] includes an unqualified opinion on FHA's financial statements, along with discussions of two material weaknesses and four reportable conditions. The FHA material weaknesses are as follows:

- ***HUD/FHA's ADP system environment must be enhanced to more effectively support FHA's business processes.*** HUD and FHA are conducting day-to-day business with legacy based systems. Several systems directly impact FHA's financial activity and necessitate financial transactions to be processed through non-integrated systems, requiring manual analysis and summary entries to be posted to FHA's general ledger. FHA's and HUD's inability to implement modern information technology adversely affects the internal controls related to accounting and reporting financial activities.
- ***Controls over budget execution and funds control must be improved.*** FHA does not have a collection of ADP financial systems that are capable of fully monitoring and controlling budgetary resources in an ADP integrated process. Lack of efficient integration between these systems requires the use of manual analysis and reconciliation and use of additional databases to collect and summarize funds control information, which subjects the process to the risk of errors resulting from reliance on manual processes.

KPMG LLP also identified four reportable conditions regarding the need for FHA and HUD to: (1) more effectively manage controls over the FHA ADP systems portfolio, (2) continue to place more emphasis on monitoring lender underwriting and improving early warning and loss prevention for single family insured mortgages, (3) sufficiently moni-

[2] KPMG LLP's report on FHA entitled, "Federal Housing Administration, Audit of Fiscal Years 2001 and 2000 Financial Statements" (2002-FO-0002, dated February 22, 2002) was incorporated in our report.

tor its single family property inventory, and (4) continue to improve its process for preparing timely estimates and properly reporting credit subsidy adjustments.

We consider the above issues to be material weaknesses and reportable conditions at the Departmental level. A more detailed discussion of these issues can be found in KPMG LLP's report on FHA's fiscal years 2001 and 2000 financial statements.

Results of the Audit of Ginnie Mae's Financial Statements

A separate audit was performed of the Government National Mortgage Association's (Ginnie Mae) financial statements for fiscal years 2001 and 2000 by KPMG LLP. Their report on Ginnie Mae's financial statements, dated January 14, 2002,[3] includes an unqualified opinion on Ginnie Mae's financial statements. In addition, the audit results indicate that there were no material weaknesses or reportable conditions with Ginnie Mae's internal controls, or material instances of non-compliance with laws and regulations.

HUD Has Made Progress in Addressing Management Deficiencies, but More Progress is Needed

Most of the issues described in this report represent long-standing weaknesses that will be difficult to resolve. HUD's management deficiencies have received much attention in recent years. For example, in January 1994, GAO designated HUD as a high-risk area, the first time such a designation was given to a cabinet level agency. Since that time, HUD has devoted considerable attention and priority to addressing the Department's management deficiencies and has made some progress. In their January 2001 update, GAO redefined and reduced the number of programs deemed to be high-risk. Specifically, because of the actions taken by HUD in response to GAO's recommendations to improve its management controls over its Community Planning and Development programs, GAO concluded that this program area is no longer high risk. However, GAO concluded that significant weaknesses still persist in two of HUD's major program areas: (1) single-family mortgage insurance and (2) rental housing assistance. In addition, HUD needs to continue addressing management challenges in two other areas: (1) information and financial management systems and (2) human capital.

With respect to fiscal years 2001 and 2000, we were able to conclude that HUD's consolidated financial statements were reliable in all material respects. However, because of continued weaknesses in HUD's internal controls and financial management systems, HUD continues to rely on extensive ad hoc analyses and special projects to develop account balances and necessary disclosures.

[3] *KPMG LLP's report on Ginnie Mae was incorporated in our report entitled, "Audit of Government National Mortgage Association Financial Statements for Fiscal Years 2001 and 2000" (2002-FO-0001, dated February 20, 2002).*

Objectives, Scope and Methodology

The accompanying principal financial statements are the responsibility of HUD management. Our responsibility is to express an opinion on these principal financial statements based on our audit. As part of our audit, we considered HUD's internal controls over financial reporting for the purpose of expressing our opinion on the principal financial statements and not to provide assurance on those internal controls. We conducted our audit in accordance with *Government Auditing Standards,* and the requirements of OMB Bulletin 01-02, *Audit Requirements for Federal Financial Statements,* as amended. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion on the financial statements.

We also tested HUD's compliance with laws and regulations that could have a direct and material effect on the financial statements. However, our consideration of HUD's internal controls and our testing of its compliance with laws and regulations were not designed to and did not provide sufficient evidence to express an opinion on such matters and would not necessarily disclose all matters that might be material weaknesses, reportable conditions or noncompliance with laws and regulations. Accordingly, we do not express an opinion on HUD's internal controls or on its compliance with laws and regulations.

Agency Comments and Our Evaluation

On January 31, 2002, we provided a draft of the internal control and compliance sections of our report to the CFO and appropriate assistant secretaries and other Departmental officials for review and comment, and requested that the CFO coordinate a Department-wide response. The CFO responded in a memorandum dated February 14, 2002. Remaining sections of the draft report were provided on February 20, 2002. The Department generally agreed with our presentation of findings and recommendations subject to detailed comments included in the memorandum and attachments. The Department's response was considered in preparing the final version of this report.

James A. Heist

James A. Heist
Assistant Inspector General
for Audit

February 25, 2002

Financial Statements

INTRODUCTION

The principal financial statements have been prepared to report the financial position and results of operations of the Department of Housing and Urban Development (HUD), pursuant to the requirements of the Chief Financial Officers Act of 1990 (31 U.S.C. 3515 (b)). While the financial statements have been prepared from HUD's books and records in accordance with formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The principal financial statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication is that liabilities reported in the financial statements cannot be liquidated without legislation that provides resources to do so.

The financial statements included in this annual report are as follows:

- Consolidated Balance Sheet;
- Consolidating Statement of Net Cost;
- Consolidating Statement of Changes in Net Position;
- Combined Statement of Budgetary Resources; and
- Combined Statement of Financing.

These financial statements include all of HUD's activities, including those of the Federal Housing Administration and the Government National Mortgage Association. All of HUD's budget authority is covered by these financial statements.

Department of Housing and Urban Development
Consolidated Balance Sheet
As of September 30, 2001 and 2000

(Dollars in Millions)

	2001	2000
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 2)	$73,328	$70,621
Investments (Note 4)	23,972	23,572
Accounts Receivable (Net) Note 6)	9	20
Other Assets (Note 7)	49	49
Total Intragovernmental Assets	$97,358	$94,262
Accounts Receivable, Net (Note 6)	763	911
Credit Program Receivables (Note 8)	10,861	11,030
Other Assets (Note 7)	213	129
TOTAL ASSETS	$109,195	$106,332
LIABILITIES		
Intragovernmental Liabilities		
Accounts Payable		$7
Debt (Note 10)	$9,235	12,421
Subsidy Re-Estimate Payable	1,396	517
Other Intragovernmental Liabilities (Note 11)	4,971	5,071
Total Intragovernmental Liabilities	$15,602	$18,016
Accounts Payable	954	901
Liabilities for Loan Guarantees (Note 8)	6,091	7,554
Debt (Note 10)	2,496	2,814
Unearned Premiums	555	682
Debentures Issued to Claimants (Note 10)	221	218
Loss Reserves (Note 12)	535	533
Insurance Liabilities	354	174
Other Governmental Liabilities (Note 11)	833	941
TOTAL LIABILITIES	$27,641	$31,833
NET POSITION		
Unexpended Appropriations (Note 13)	$63,305	$60,870
Cumulative Results of Operations	18,249	13,629
TOTAL NET POSITION	$81,554	$74,499
TOTAL LIABILITIES AND NET POSITION	$109,195	$106,332

The accompanying notes are an integral part of these statements

Department of Housing and Urban Development
Consolidating Statement of Net Cost For the Year Ended September 2001

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Public and Indian Housing	Housing (excluding FHA)	Community Planning and Development	Other	Consolidated
COSTS:							
Unsubsidized Program							
Intragovernmental	$431						$431
With the Public	(576)						(576)
Total Expenses	($145)	$0	$0	$0	$0	$0	($145)
Less: Earned Revenues	(2,383)						(2,383)
Net Program Costs	($2,528)						($2,528)
Subsidized Program							
Intragovernmental	$95						$95
With the Public	580						580
Total Expenses	$675	$0	$0	$0	$0	$0	$675
Less: Earned Revenues	(871)						(871)
Net Program Costs	($196)						($196)
Government National Mortgage Association							
With the Public		73					73
Total Expenses	$0	$73	$0	$0	$0	$0	$73
Less: Earned Revenues		(878)					(878)
Net Program Costs		($805)					($805)
Section 8							
Intragovernmental			$7	($126)			($119)
With the Public	0	0	9,543	7,209	11	0	16,763
Total Expenses	$0	$0	$9,550	$7,083	$11	$0	$16,644
Less: Earned Revenues			0	150	0		150
Net Program Costs			$9,550	$7,233	$11		$16,794
Low Rent Public Housing Loans and Grants							
Intragovernmental			$204				$204
With the Public	0	0	3,851	0	0	0	3,851
Total Expenses	$0	$0	$4,055	$0	$0	$0	$4,055
Less: Earned Revenues							
Net Program Costs			$4,055				$4,055
Operating Subsidies							
Intragovernmental			$35				$35
With the Public			3,112				3,112
Total Expenses	$0	$0	$3,147	$0	$0	$0	$3,147
Less: Earned Revenues			0				0
Net Program Costs			$3,147				$3,147
Housing for the Elderly and Disabled							
Intragovernmental				$314			$314
With the Public				784			784
Total Expenses	$0	$0	$0	$1,098	$0	$0	$1,098
Less: Earned Revenues				(665)			(665)
Net Program Costs				$433			$433
Community Development Block Grants							
Intragovernmental					32		32
With the Public	0	0	0	0	4,948	0	4,948
Total Expenses	$0	$0	$0	$0	$4,980	$0	$4,980
Less: Earned Revenues					0		0
Net Program Costs					$4,980		$4,980
HOME							
Intragovernmental					$11		$11
With the Public					1,425		1,425
Total Expenses	$0	$0	$0	$0	$1,436	$0	$1,436
Less: Earned Revenues					0		0
Net Program Costs					$1,436		$1,436
Other							
Intragovernmental			$51	$29	$45	$44	$169
With the Public			800	548	1,477	217	3,042
Total Expenses	$0	$0	$851	$577	$1,522	$261	$3,211
Less: Earned Revenues			(1)	(36)	(7)	(1)	(45)
Net Program Costs			$850	$541	$1,515	$260	$3,166
Costs Not Assigned to Programs	0	0	$154	$141	$87	0	$382
NET COST OF OPERATIONS	($2,724)	($805)	$17,756	$8,348	$8,029	$260	$30,864

The accompanying notes are an integral part of these statements

Department of Housing and Urban Development
Consolidating Statement of Net Cost For the Year Ended September 2000

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Public and Indian Housing	Housing (excluding FHA)	Community Planning and Development	Other	Consolidated
COSTS:							
Unsubsidized Program							
Intragovernmental	$477						$477
With the Public	2,532						2,532
Total Expenses	$3,009						$3,009
Less: Earned Revenues	(2,886)						(2,886)
Net Program Costs	$123						$123
Subsidized Program							
Intragovernmental	$111						$111
With the Public	391						391
Total Expenses	$502						$502
Less: Earned Revenues	(579)						(579)
Net Program Costs	($77)						($77)
Government National Mortgage Association							
With the Public		$69					$69
Total Expenses		$69					$69
Less: Earned Revenues		(832)					(832)
Net Program Costs		($763)					($763)
Section 8							
Expenses With the Public/Net Program Costs			$8,823	$7,136	$31		$15,990
Low Rent Public Housing Loans and Grants							
Intragovernmental			$93				$93
With the Public			4,078				4,078
Total Expenses			$4,171				$4,171
Less: Earned Revenues			(3)				(3)
Net Program Costs			$4,168				$4,168
Operating Subsidies							
Expenses With the Public/Net Program Costs			$2,889				$2,889
Housing for the Elderly and Disabled							
Intragovernmental				$345			$345
With the Public				733			733
Total Expenses				$1,078			$1,078
Less: Earned Revenues				(674)			(674)
Net Program Costs				$404			$404
Community Development Block Grants:							
Expenses With the Public/Net Program Costs					$5,012		$5,012
HOME							
Intragovernmental					$3		$3
With the Public					1,496		1,496
Total Expenses/Net Program Costs					$1,499		$1,499
Other							
Intragovernmental			$2	$21	$7	$273	$303
With the Public			711	711	1,286	6	2,714
Total Expenses			$713	$732	$1,293	$279	$3,017
Less: Earned Revenues				(47)	(8)	93	38
Net Program Costs			$713	$685	$1,285	$372	$3,055
Costs Not Assigned to Programs			$152	$108	$84		$344
NET COST OF OPERATIONS	$46	($763)	$16,745	$8,333	$7,911	$372	$32,644

The accompanying notes are an integral part of these statements

Department of Housing and Urban Development
Consolidating Statement of Changes in Net Position
For the Year Ended September 2001 and 2000

(Dollars in Millions)

2001	Federal Housing Administration	Government National Mortgage Association	Public and Indian Housing	Housing (excluding FHA)	Community Planning and Development	Other	Consolidated
Net Cost of Operations	($2,724)	($805)	$17,756	$8,348	$8,029	$260	$30,864
Financing Sources (other than exchange revenue)							
Appropriations Used	(1,370)		(17,764)	(8,670)	(7,642)	(786)	(36,232)
Imputed Financing	(14)					(56)	(70)
Transfers In/Out	1,284					(204)	1,080
Other Financing Sources	7		(338)	(225)	(215)	771	
Net Results of Operations	(2,817)	(805)	(346)	(547)	172	(15)	(4,358)
Prior Period Adjustments	($261)						($261)
Net Change In Cumulative Results of Operations	(3,078)	(805)	(346)	(547)	172	(15)	(4,619)
Change in Unexpended Appropriations	($978)		$9,606	($11,120)	$85	($29)	($2,436)
Change in Net Position	(4,056)	(805)	9,260	(11,667)	257	(44)	(7,055)
Net Position-Beginning of Period	($11,058)	($7,319)	($4,320)	($23,280)	($27,759)	($763)	($74,499)
Net Position-End of Period	($15,114)	($8,124)	$4,940	($34,947)	($27,502)	($807)	($81,554)

2000	Federal Housing Administration	Government National Mortgage Association	Public and Indian Housing	Housing (excluding FHA)	Community Planning and Development	Other	Consolidated
Net Cost of Operations	$46	($763)	$16,745	$8,333	$7,911	$372	$32,644
Financing Sources (other than exchange revenue)							
Appropriations Used	(1,124)		(16,748)	(8,720)	(7,848)	(5)	(34,445)
Imputed Financing	(11)					(38)	(49)
Transfers (In) / Out	436			73		(307)	202
Other Financing Sources				35			35
Net Results of Operations	($653)	($763)	($3)	($279)	$63	$22	($1,613)
Prior Period Adjustments	(8)				(13)		(21)
Net Change In Cumulative Results of Operations	($661)	($763)	($3)	($279)	$50	$22	($1,634)
Change in Unexpended Appropriations	(837)		12,958	(11,388)	1,431	(95)	2,069
Change in Net Position	($1,498)	($763)	$12,955	($11,667)	$1,481	($73)	$435
Net Position-Beginning of Period	(9,560)	(6,556)	(17,275)	(11,613)	(29,240)	(690)	(74,934)
Net Position-End of Period	($11,058)	($7,319)	($4,320)	($23,280)	($27,759)	($763)	($74,499)

The accompanying notes are an integral part of these statements

Department of Housing and Urban Development
Combined Statement of Budgetary Resources
For the Year Ended September 2001 and 2000
(Dollars in Millions)

	2001	2000
BUDGETARY RESOURCES:		
Budget Authority	$47,594	$27,842
Net Transfers, Current Year Authority	6	130
Unobligated Balance – Beginning of Year	44,195	44,783
Net Transfers Prior Year Balance, Actual		(124)
Spending Authority from Offsetting Collections	20,669	16,283
Adjustments		
Recoveries of PriorYear Obligation	3,279	2,468
Permanently Not Available		
Cancelled-Expired and NoYear Accts	(56)	(54)
Enacted Recissions PriorYear Balance	(2,534)	(2,700)
Capital Trans and Debt Redemption	(5,763)	(2,940)
Other Authority Withdrawn	(6,863)	(165)
TOTAL BUDGETARY RESOURCES	$100,527	$85,523
STATUS OF BUDGETARY RESOURCES:		
Obligations Incurred	$56,349	$41,328
Unobligated Balances Available	12,628	14,436
Unobligated Balances Not Yet Available	31,550	29,759
TOTAL STATUS OF BUDGETARY RESOURCES	$100,527	$85,523
OUTLAYS:		
Obligations Incurred	$56,349	$41,328
Less: Spending Authority From Offsetting		
Collections and Adjustments	20,669	16,283
Actual Recoveries-Prior Year Obligations	3,279	2,468
Obligated Balance, Net Beginning of Period	97,713	105,196
Obligated Balance Transferred,		
Net Less: Obligated Balance, Net – End of Period	93,881	97,713
TOTAL OUTLAYS	$36,233	$30,060

The accompanying notes are an integral part of these statements

Department of Housing and Urban Development
Combined Statement of Financing
For the Year Ended September 2001 and 2000

(Dollars in Millions)

	2001	2000
OBLIGATIONS AND NONBUDGETARY RESOURCES		
Obligations Incurred	$56,349	$41,328
Spending Authority from Offsetting Collections and Adjustments	(20,669)	(16,213)
Recoveries-Prior Year Obligations	(3,279)	(2,468)
Financing Imputed for Cost Subsidies	70	49
Transfers In (Out)		
Exchange Revenue Not in the Budget	(66)	64
Non-Exchange Revenue Not in Budget	140	8
Exchange Revenue in the Budget	6	
TOTAL OBLIGATIONS AS ADJUSTED, AND NONBUDGETARY RESOURCES	$32,551	$22,768
RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS		
Change in Amount of Goods, Services and Benefits Ordered, but not yet Received or Provided	$3,877	$7,309
Costs Capitalized on the Balance Sheet	5,758	2,155
Financing Sources that Fund Costs of Prior Periods	(8,363)	(11)
Other	(353)	(44)
TOTAL RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS	$919	$9,409
COSTS THAT DO NOT REQUIRE RESOURCES		
Depreciation and Amortization	$4	$6
Bad Debts Related to Uncollectible Non-Credit Reform Receivables	(466)	70
Revaluation of assets & Liabilities	(831)	(1,127)
Loss of Disposition of Assets	748	728
Other	(4,045)	(3,171)
TOTAL COSTS NOT REQUIRING RESOURCES	($4,590)	($3,494)
FINANCING SOURCES YET TO BE PROVIDED	$1,984	$3,961
NET COST OF OPERATIONS	$30,864	$32,644

The accompanying notes are an integral part of these statements

Notes to Financial Statements
September 30, 2001 and 2000

Note 1 – Entity and Mission

The U.S. Department of Housing and Urban Development (HUD) was created in 1965 to (1) provide housing subsidies for low and moderate income families, (2) provide grants to states and communities for community development activities, (3) provide direct loans and capital advances for construction and rehabilitation of housing projects for the elderly and persons with disabilities, and (4) promote and enforce fair housing and equal housing opportunity. In addition, HUD insures mortgages for single family and multifamily dwellings; insures loans for home improvements and manufactured homes; and facilitates financing for the purchase or refinancing of millions of American homes.

HUD's major programs are as follows:

The **Federal Housing Administration** (FHA) was created as a Government corporation within HUD and administers active mortgage insurance programs that are designed to make mortgage financing more accessible to the home-buying public and thereby to develop affordable housing. FHA insures private lenders against loss on mortgages that finance single family homes, multifamily projects, health care facilities, property improvements, and manufactured homes.

The **Government National Mortgage Association** (Ginnie Mae) was created as a Government corporation within HUD to administer mortgage support programs that could not be carried out in the private market. Ginnie Mae guarantees the timely payment of principal and interest on mortgage-backed securities issued by approved private mortgage institutions and backed by pools of mortgages insured or guaranteed by FHA, the Rural Housing Service (RHS), the Department of Veterans Affairs (VA) and the HUD Office of Public and Indian Housing (PIH).

The **Section 8 Rental Assistance** programs assist low- and very low-income families in obtaining decent and safe rental housing. HUD makes up the difference between what a low- and very low-income family can afford and the approved rent for an adequate housing unit.

Operating Subsidies are provided to Public Housing Authorities (PHAs) and Tribally Designated Housing Entities (TDHEs) to help finance the operations and maintenance costs of their housing projects.

The **Community Development Block Grant** (CDBG) programs provide funds for metropolitan cities, urban counties, and other communities to use for neighborhood revitalization, economic development, and improved community facilities and services.

The **Low Rent Public Housing Grants** program provides grants to PHAs and TDHEs for construction and rehabilitation of low-rent housing. This program is a continuation of the Low Rent Public Housing Loan program that pays principal and interest on long-term loans made to PHAs and TDHEs for construction and rehabilitation of low-rent housing.

The **Section 202/811 Supportive Housing for the Elderly and Persons with Disabilities** programs, prior to fiscal 1992, provided 40-year loans to nonprofit organizations sponsoring rental housing for the elderly or disabled. During fiscal 1992, the program was converted to a grant program. The grant program provides long-term supportive housing for the elderly (Section 202) and disabled (Section 811).

The **HOME Investments Partnerships** program provides grants to States, local Governments, and Indian tribes to implement local housing strategies designed to increase home ownership and affordable housing opportunities for low- and very low-income Americans.

Other Programs not included above consist of other smaller programs which provide grant, subsidy funding, and direct loans to support other HUD objectives such as fair housing and equal opportunity, energy conservation, assistance for the homeless, rehabilitation of housing units, and home ownership. These programs comprise approximately 9.9 percent of HUD's consolidated assets and 9.1 percent of HUD's consolidated revenues and financing sources for fiscal 2001 and 9.6 percent of HUD's consolidated assets and 8.4 percent of HUD's consolidated revenues and financing sources for fiscal 2000.

Note 2 – Summary of Significant Accounting Policies

A. Basis of Consolidation

The financial statements include all funds and programs for which HUD is responsible. All significant intra-fund balances and transactions have been eliminated in consolidation. Transfer appropriations are consolidated into the financial statements based on an evaluation of their relationship with HUD.

B. Basis of Accounting

The financial statements include the accounts and transactions of the Ginnie Mae, FHA, and HUD's Grant, Subsidy and Loan programs.

The financial statements are presented in accordance with the Office of Management and Budget (OMB) Bulletin 97-01, Form and Content of Agency Financial Statements, and in conformance with the Federal Accounting Standards Advisory Board's (FASAB) Statements of Federal Financial Accounting Standards (SFFAS).

The financial statements are presented on the accrual basis of accounting. Under this method, HUD recognizes revenues when earned, and expenses when a liability is incurred, without regard to receipt or payment of cash. Generally, procedures for HUD's major grant and subsidy programs require recipients to request periodic disbursement concurrent with incurring eligible costs.

C. Operating Revenue and Financing Sources

HUD finances operations principally through appropriations, collection of premiums and fees on its FHA and Ginnie Mae programs, and interest income on its mortgage notes, loans, and investments portfolio.

Appropriations for Grant and Subsidy Programs

HUD receives both annual and multi-year appropriations, and recognizes those appropriations as revenue when related program expenses are incurred. Accordingly, HUD recognizes grant-related revenue and related expenses as recipients perform under the contracts. HUD recognizes subsidy-related revenue and related expenses when the underlying assistance (e.g., provision of a Section 8 rental unit by a housing owner) is provided.

FHA Unearned Premiums

Premiums charged by FHA for single family mortgage insurance provided by its Mutual Mortgage Insurance (MMI) Fund and Cooperative Management Housing Insurance (CMHI) Fund include up-front and annual risk based premiums. Pre-credit reform up-front risk based premiums are recorded as unearned revenue upon collection and are recognized as revenue over the period in which losses and insurance costs are expected to occur. Annual risk-based premiums are recognized as revenue on a straight-line basis throughout the year. FHA's other activities charge periodic insurance premiums over the mortgage insurance term. Premiums on annual installment policies are recognized for the liquidating accounts on a straight-line basis throughout the year.

Premiums associated with Credit Reform loan guarantees are included in the calculation of the liability for loan guarantees (LLG) and not included in the unearned premium amount reported on the Balance Sheet, since the LLG represents the net present value of future cash flows associated with those insurance portfolios.

Ginnie Mae Fees

Fees received for Ginnie Mae's guaranty of mortgage-backed securities are recognized as earned on an accrual basis. Fees received for commitments to subsequently guarantee mortgage-backed securities and commitments to fund mortgage loans are recognized when commitments are granted.

D. Appropriations and Moneys Received from Other HUD Programs

The General Insurance Fund (GI) and Special Risk Insurance Fund (SRI) were not designed to be self-sustaining. As a result, the National Housing Act of 1990, as amended, provides for appropriations from Congress to finance the operations of these Funds. For post-1991 loan guarantees, appropriations to the GI and SRI Funds are made at the beginning of each fiscal year to cover estimated losses on loans to be insured during that year. For pre-1992 loan guarantees, the FHA has permanent indefinite appropriations authority to finance the cash requirements of operations.

HUD records moneys received from other HUD programs, such as interest subsidies and rent supplements, as revenue for the liquidating accounts when services are rendered. Moneys received for the financing accounts are recorded as an addition to the liability for loan guarantees when collected.

E. Fund Balance with the U.S. Treasury

The U.S. Treasury, which, in effect, maintains HUD's bank accounts, processes substantially all of HUD's receipts and disbursements. The following shows HUD's fund balances with the U.S. Treasury as of September 30, 2001 and 2000 were as follows (dollars in millions):

Description	2001	2000
Revolving Funds	$11,870	$10,635
Appropriated Funds	61,454	59,909
Trust Funds	4	77
TOTAL – FUND BALANCE	$73,328	$70,621

An immaterial difference exists between HUD's recorded Fund Balance with the US Treasury and the US Department of Treasury's records. It is the Department's practice to adjust its records to agree with Treasury's balances at the end of the fiscal year. The adjustments are reversed at the beginning of the following fiscal year. During fiscal 2001 an immaterial amount of older items were written off.

F. Investments

HUD limits its investments, principally comprised of investments by FHA's MMI/CMHI Fund and by Ginnie Mae, to non-marketable market-based Treasury interest-bearing obligations (i.e., investments not sold in public markets). The market value and interest rates established for such investments are the same as those for similar Treasury issues that are publicly marketed.

HUD's investment decisions are limited by Treasury policy which: (1) only allows investment in Treasury notes, bills, and bonds; and (2) prohibits HUD from engaging in practices that result in "windfall" gains and profits, such as security trading and full scale restructuring of portfolios, in order to take advantage of interest rate fluctuations.

FHA's normal policy is to hold investments in U.S. Government securities to maturity. However, as a result of Credit Reform, cash collected on insurance endorsed on or after October 1, 1991, is no longer available to invest in U.S. Government securities, and may only be used to finance claims arising from insurance endorsed during or after fiscal 1992. FHA may have to liquidate its U.S. Government securities before maturity to finance claim payments from pre-fiscal 1992 insurance endorsements. However, management does not expect early liquidation of any U.S. Government Securities and believes it has the ability to hold these securities to maturity.

HUD reports investments in U.S. Government securities at amortized cost. Premiums or discounts are amortized into interest income over the term of the investment. HUD intends to hold investments to maturity, unless needed for operations. No provision is made to record unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity.

G. Credit Program Receivables and Related Foreclosed Property

HUD finances mortgages and provides loans to support construction and rehabilitation of low rent housing, principally for the elderly and disabled under the Section 202/811 program. Prior to April 1996, mortgages were also assigned to HUD through FHA claims settlement (i.e., mortgage notes assigned (MNAs)). Single family mortgages were assigned to FHA when the mortgagor defaulted due to certain "temporary hardship" conditions beyond the control of the mortgagor, and when, in management's judgment, it is likely that the mortgage could be brought current in the future. During fiscal 2001, FHA continued to take single family assignments on those defaulted notes that were in process at the time the assignment program was terminated. In addition, multifamily mortgages are assigned to FHA when lenders file mortgage insurance claims for defaulted notes.

Multifamily and single family performing notes insured pursuant to Section 221(g)(4) of the National Housing Act may be assigned automatically to FHA at a pre-determined point.

Credit program receivables for direct loan programs and defaulted guaranteed loans assigned for direct collection are valued differently based on the direct loan obligation or loan guarantee commitment date. These valuations are in accordance with the Federal Credit Reform Act of 1990 and SFFAS No. 2, "Accounting for Direct Loans and Loan Guarantees", as amended by SFFAS No. 18. Those obligated or committed on or after October 1, 1991 (post-Credit Reform) are valued at the net present value of expected cash flows from the related receivables.

Credit program receivables resulting from obligations or commitments prior to October 1, 1991, (pre-Credit Reform) are recorded at the lower of cost or fair value (net realizable value). Fair value is estimated based on the prevailing market interest rates at the date of mortgage assignment. When fair value is less than cost, discounts are recorded and amortized to interest income over the remaining terms of the mortgage or upon sale of the mortgages. Interest is recognized as income when earned. However, when full collection of principal is considered doubtful, the accrual of interest income is suspended and receipts (both interest and principal) are recorded as collections of principal. Pre-Credit Reform loans are reported net of allowance for loss and any unamortized discount. The estimate for the allowance on credit program receivables is based on historical loss rates and recovery rates resulting from asset sales and property recovery rates, net of cost of sales.

Foreclosed property acquired as a result of defaults of loans obligated or loan guarantees committed on or after October 1, 1991, is valued at the net present value of the projected cash flows associated with the property. Foreclosed property acquired as a result in defaulted loans obligated or loan guarantees committed prior to 1992 is valued at net realizable value. The estimate for the allowance for loss related to the net realizable value of foreclosed property is based on historical loss rates and recovery rates resulting from property sales, net of cost of sales.

H. Liability for Loan Guarantees

The liability for loan guarantees (LLG) related to Credit Reform loans (made after October 1, 1991) is comprised of the present value of anticipated cash outflows for defaults such as claim payments, premium refunds, property expense for on-hand properties, and sales expense for sold properties, less anticipated cash inflows such as premium receipts, proceeds from property sales, and principal interest on Secretary-held notes.

The pre-Credit Reform LLG is computed using the net realizable value method. The LLG for pre-Credit Reform single family insured mortgages includes estimates for defaults that have taken place, but where claims have not yet been filed with FHA. In addition, the LLG for pre-Credit Reform multifamily insured mortgages includes estimates for defaults that are considered probable but have not been reported to FHA.

I. Full Cost Reporting

Beginning in fiscal 1998, SFFAS No. 4 required that full costing of program outputs be included in Federal agency financial statements. Full cost reporting includes direct, indirect, and inter-entity costs. For purposes of the consolidated department financial statements, HUD identified each responsible segment's share of the program costs or resources provided by HUD or other Federal agencies. These costs are treated as imputed cost for the Statement of Net Cost, and imputed financing for the Statement of Changes in Net Position and the Statement of Financing.

J. Accrued Unfunded Leave and Federal Employees Compensation Act (FECA) Liabilities

Annual leave and compensatory time are accrued as earned and the liability is reduced as leave is taken. The liability at year-end reflects cumulative leave earned but not taken, priced at current wage rates. Earned leave deferred to future periods is to be funded by future appropriations. HUD offsets this unfunded liability by recording future financing sources in the Net Position section of its Consolidated Balance Sheet. Sick leave and other types of leave are expensed as taken.

HUD also accrues the portion of the estimated liability for disability benefits assigned to the agency under the FECA, administered and determined by the Department of Labor. The liability, based on the net present value of estimated future payments based on a study conducted by the Department of Labor, was $85 million as of September 30, 2001 and $75 million as of September 30, 2000. Future payments on this liability are to be funded by future appropriations. HUD offsets this unfunded liability by recording future financing sources.

K. Loss Reserves

HUD records loss reserves for its mortgage insurance programs operated through FHA and its financial guaranty programs operated by Ginnie Mae. FHA loss reserves are recorded for actual or probable defaults of FHA-insured mortgage loans. Ginnie Mae establishes reserves for actual and probable defaults of issuers of Ginnie Mae-guaranteed mortgage-backed securities. Such reserves are based on management's judgment about historical claim and loss information and current economic factors.

L. Retirement Plans

The majority of HUD's employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). FERS went into effect pursuant to Public Law 99-335 on January 1, 1987. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired before January 1, 1984, can elect to either join FERS and Social Security or remain in CSRS. HUD expenses its contributions to the retirement plans.

A primary feature of FERS is that it offers a savings plan whereby HUD automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. Under CSRS, employees can contribute up to 6 percent of their pay to the savings plan, but there is no corresponding matching by HUD. Although HUD funds a portion of the benefits under FERS relating to its employees and makes the necessary withholdings from them, it has no liability for future payments to employees under these plans, nor does it report CSRS, FERS, or FECA assets, accumulated plan benefits, or unfunded liabilities applicable to its employees. These amounts are reported by the Office of Personnel Management (OPM) and are not allocated to the individual employers. HUD's matching contribution to these retirement plans during fiscal 2001 and 2000 was $66 million and $68 million, respectively.

M. Federal Employee and Veteran's Benefit

The Department's Federal Employee and Veteran's benefit expenses totaled approximately $122 million for fiscal 2001; this amount includes $32 million to be funded by the OPM. Federal Employee and Veteran's benefit expenses totaled approximately $102 million for fiscal 2000; this amount includes $16 million to be funded by the OPM. Amounts funded by OPM are charged to expense with a corresponding amount considered as an imputed financing source in the statement of changes in net position.

Note 3 – Commitments Under HUD's Grant, Subsidy, and Loan Programs

A. Contractual Commitments

HUD has entered into extensive long-term contractual commitments under its various grant, subsidy and loan programs. These commitments consist of legally binding agreements the Department has entered into to provide grants, subsidies, or loans. Commitments become liabilities when all actions required for payment under an agreement have occurred. The mechanism for funding subsidy commitments generally differs depending on whether the agreements were entered into, before, or after 1988.

Prior to fiscal 1988, HUD's subsidy programs, primarily the Section 8 program and the Section 235/236 programs, operated under contract authority. Each year, Congress provided HUD the authority to enter into multiyear contracts within annual and total contract limitation ceilings. HUD then drew on and continues to draw on permanent indefinite appropriations to fund the current year's portion of those multiyear contracts. Because of the duration of these contracts (up to 40 years), significant authority exists to draw on the permanent indefinite appropriations. Beginning in fiscal 1988, the Section 8 and the Section 235/236 programs began operating under multiyear budget authority whereby the Congress appropriates the funds "up-front" for the entire contract term in the initial year, the effect of which substantially increases HUD's net position.

As shown below, appropriations to fund a substantial portion of these commitments will be provided through permanent indefinite authority. These commitments relate primarily to the Section 8 program, and the Section 235/236 rental assistance and interest reduction programs, and are explained in greater detail below.

HUD's commitment balances are based on the amount of unliquidated obligations recorded in HUD's accounting records with no provision for changes in future eligibility, and thus are equal to the maximum amounts available under existing agreements and contracts. Unexpended appropriations shown in the Consolidated Balance Sheet comprise funds in the U.S. Treasury available to fund existing commitments that were provided through "up-front" appropriations, and also include permanent indefinite appropriations received in excess of amounts used to fund the pre-1988 subsidy contracts.

The following shows HUD's obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2001 (dollars in millions):

	Commitments Funded Through		
Programs	Unexpended Appropriations	Permanent Indefinite Appropriations	Total Contracted Commitments
Section 8 Rental Assistance	$15,975	$26,412	$42,387
Community Development Block Grants	9,048	–	9,048
HOME Partnership Investment Program	4,370	–	4,370
Operating Subsidies	1,652	–	1,652
Low Rent Public Housing Grants and Loans	9,165	–	9,165
Housing for Elderly and Disabled	4,056	–	4,056
Section 235/236	138	9,517	9,655
All Other	7,103	64	7,167
TOTAL	$51,507	$35,993	$87,500

Of the total Section 8 Rental Assistance contractual commitments as of September 30, 2001, $32.7 billion relates to project-based commitments, and $9.7 billion relates to tenant-based commitments.

The following shows HUD's obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2000 (dollars in millions):

	Commitments Funded Through		
Programs	Unexpended Appropriations	Permanent Indefinite Appropriations	Total Contracted Commitments
Section 8 Rental Assistance	$17,422	$28,622	$46,044
Community Development Block Grants	9,017	–	9,017
HOME Partnership Investment Program	4,092	–	4,092
Operating Subsidies	1,590	–	1,590
Low Rent Public Housing Grants and Loans	8,580	29	8,609
Housing for Elderly and Disabled	3,981	–	3,981
Section 235/236	78	10,620	10,698
All Other	6,650	81	6,731
TOTAL	$51,410	$39,352	$90,762

Of the total Section 8 Rental Assistance contractual commitments as of September 30, 2000, $36.3 billion relates to project-based commitments, and $9.7 billion relates to tenant-based commitments. With the exception of the Housing for the Elderly and Disabled and Low Rent Public Housing Loan Programs (which have been converted to grant programs), Section 235/236, and a portion of "all other" programs, HUD management expects all of the above programs to continue to incur new commitments under authority granted by Congress in future years. However, estimated future commitments under such new authority are not included in the amounts above.

B. Administrative Commitments

In addition to the above contractual commitments, HUD has entered into administrative commitments that are reservations of funds for specific projects (including those for which a contract has not yet been executed) to obligate all or part of those funds. Administrative commitments become contractual commitments upon contract execution.

The following shows HUD's administrative commitments as of September 30, 2001 (dollars in millions):

	Administrative Commitments Funded Through		
Programs	Unexpended Appropriations	Permanent Indefinite Appropriations	Total Reservations
Section 8 Rental Assistance Project-Based	$152	–	$152
Section 8 Rental Assistance Tenant-Based	4	–	4
Community Development Block Grants	771	–	771
HOME Partnership Investment Program	254	–	254
Low Rent Public Housing Grants and Loans	819	–	819
Housing for Elderly and Disabled	2,586	$73	2,659
All Other	1,185	15	1,200
TOTAL	$5,771	$88	$5,859

The following shows HUD's administrative commitments as of September 30, 2000 (dollars in millions):

	Administrative Commitments Funded Through		
Programs	Unexpended Appropriations	Permanent Indefinite Appropriations	Total Reservations
Section 8 Rental Assistance Project-Based	–	$505	$505
Section 8 Rental Assistance Tenant-Based	–	8	8
Community Development Block Grants	$630	–	630
HOME Partnership Investment Program148	–	148	
Low Rent Public Housing Grants and Loans	1,568	–	1,568
Housing for Elderly and Disabled	2,385	73	2,458
All Other	1,205	4	1,209
TOTAL	$5,936	$590	$6,526

Note 4 – Investments

The U.S. Government securities are non-marketable intra-governmental securities. Interest rates are established by the U.S. Treasury and during fiscal 2001 ranged from 2.49 percent to 13.9 percent. During fiscal 2000 interest rates ranged from 5.25 percent to 7.87 percent. The amortized cost and estimated market value of investments in debt securities as of September 30, 2001 and 2000, were as follows (dollars in millions):

Fiscal Year	Cost	Par Value	Premium (Discount)	Un-amortized Accrued Interest	Net Investments	Unrealized Gain	Market Value
FY 2001	$23,517	$23,857	$(195)	$310	$23,972	$1,641	$25,613
FY 2000	$23,109	$23,450	$(227)	$349	$23,572	$419	$23,991

Note 5 – Entity and Non-Entity Assets

The following shows HUD's assets as of September 30, 2001 and 2000 (dollars in millions):

	2001			2000		
Description	Entity	Non-Entity	Total	Entity	Non-Entity	Total
Intragovernmental						
Fund Balance with Treasury	$72,946	$382	$73,328	$70,302	$319	$70,621
Investments	23,972	–	23,972	23,572	–	23,572
Accounts Receivable	9	–	9	20	–	20
Other Assets	42	7	49	41	8	49
TOTAL INTRAGOVERNMENTAL ASSETS	$96,969	$389	$97,358	$93,935	$327	$94,262
Accounts Receivable	519	244	763	604	307	911
Loan Receivables and Related Foreclosed Property	10,854	7	10,861	11,030	–	11,030
Other Assets	103	110	213	55	74	129
TOTAL ASSETS	$108,445	$750	$109,195	$105,624	$708	$106,332

Note 6 – Accounts Receivable

Section 8 Settlements

Section 8 subsidies disbursed during the year under annual contribution contracts are based on estimated amounts due under the contracts by PHAs. At the end of each year the actual amount due under the contracts is determined. The excess of subsidies paid to PHAs during the year over the actual amount due is reflected as accounts receivable in the balance sheet. These amounts are "collected" by offsetting such amounts with subsidies due to PHAs in subsequent periods. As of September 30, 2001 and 2000, this amount totaled $150 million and $359 million, respectively.

Bond Refundings

Many of the Section 8 projects constructed in the late 1970s and early 1980s were financed with tax exempt bonds with maturities ranging from 20 to 40 years. The related Section 8 contracts provided that the subsidies would be based on the difference between what tenants could pay pursuant to a formula, and the total operating costs of the Section 8 project, including debt service. The high interest rates during the construction period resulted in high subsidies. When interest rates came down in the 1980s, HUD was interested in getting the bonds refunded. One method used to account for the savings when bonds are refunded (PHA's sell a new series of bonds at a lower interest rate, to liquidate the original bonds), is to continue to pay the original amount of the bond debt service to a trustee. The amounts paid in excess of the lower "refunded" debt service and any related financing costs, are considered savings. One-half of these savings are provided to the PHA, the remaining half is returned to HUD. As of September 30, 2001 and 2000, HUD was due $240 million and $307 million, respectively.

The following shows accounts receivable as reflected in the Balance Sheet as of September 30, 2001 and 2000, as follows (dollars in millions):

Description	2001	2000
Section 8 Settlements	$150	$359
Bond Refundings	240	307
Other Receivables	382	265
Total	$772	$931

Note 7 – Other Assets

The following shows HUD's Other Assets as of September 30, 2001 (dollars in millions):

Description	FHA	Ginnie Mae	Section 8 Rental Assistance	All Other	Total
Intragovernmental Assets:					
Receivables from unapplied disbursements	$42	–	–	–	$42
Section 312 Rehabilitation Loan Program Receivables	–	–	–	–	–
Mortgagor Reserves for Replacement – Investment	7	–	–	–	7
Other Assets	–	–	–	–	–
TOTAL INTRAGOVERNMENTAL ASSETS	$49	–	–	–	$49
Receivables Related to Asset Sales	–	–	–	–	–
Receivables Related to Credit Program Assets	–	–	–	–	–
Equity Interest in Multifamily Mortgage Trust 1996	–	–	–	–	–
Premiums Receivable	–	–	–	–	–
Property and Equipment	–	–	–	$65	65
Mortgagor Reserves for Replacement – Cash	110	–	–	–	110
Other Assets	15	$22	–	1	38
TOTAL	$174	$22	–	$66	$262

The following shows HUD's Other Assets as of September 30, 2000 (dollars in millions):

Description	FHA	Ginnie Mae	Section 8 Rental Assistance	All Other	Total
Intragovernmental Assets:					
Receivables from unapplied disbursements	$41	–	–	–	$41
Section 312 Rehabilitation Loan Program Receivables	–	–	–	–	–
Mortgagor Reserves for Replacement – Investment	8	–	–	–	8
Other Assets	–	–	–	–	–
TOTAL INTRAGOVERNMENTAL ASSETS	$49	–	–	–	$49
Receivables Related to Asset Sales	–	–	–	–	–
Receivables Related to Credit Program Assets	–	–	–	–	–
Equity Interest in Multifamily Mortgage Trust 1996	–	–	–	–	–
Premiums Receivable	–	–	–	–	–
Property and Equipment	–	–	–	$27	27
Mortgagor Reserves for Replacement – Cash	74	–	–	–	74
Other Assets	16	$9	–	3	28
TOTAL	$139	$9	–	$30	$178

Receivable from Unapplied Disbursements

The initial allocations of the confirmed Fund Balances with Treasury among the U.S. Treasury accounts that make up FHA are based on estimates. At the end of the fiscal year, these estimates resulted in the establishment of the receivables and payables that reflect the differences between the Fund Balance with Treasury and the estimates recorded in FHA's general ledger.

Before fiscal 2001, the receivable and payables were classified as receivable from and payable to the U.S. Treasury. In fiscal 2001, these receivables and payables are classified as receivables and payables between different FHA accounts to more appropriately reflect the nature of the differences. As a result, in the process of preparing the FHA consolidated statements, these intra-FHA receivables and payables are eliminated. The remaining receivable and/or payable is classified to a receivable or payable with other U.S. government agencies. Accordingly, in fiscal 2000, the offsetting receivables and payables in the amount of $280 million have been eliminated to conform to the fiscal 2001 presentation.

Note 8 – Direct Loans and Loan Guarantees, Non-Federal Borrowers

HUD reports direct loan obligations or loan guarantee commitments made prior to fiscal 1992, and the resulting direct loans or defaulted guaranteed loans net of allowance for estimated uncollectable loans or estimated losses.

Direct loan obligations or loan guarantee commitments made after fiscal 1991, and the resulting direct loans or defaulted guaranteed loans are governed by the Federal Credit Reform Act of 1990, and are recorded as the net present value of the associated cash flows (i.e. interest rate differential, interest subsidies, estimated delinquencies and defaults, fee offsets, and other cash flows). The following is an analysis of loan receivables, loan guarantees, liability for loan guarantees, and the nature and amounts of the subsidy costs associated with the loans and loan guarantees for fiscal 2001 and 2000 were as follows:

A. List of HUD's Direct Loan and/or Loan Guarantee Programs:

1. FHA

2. Ginnie Mae

3. Housing for the Elderly and Disabled

4. Low Rent Public Housing Loan Fund

5. All Other
   a) Revolving Fund
   b) Flexible Subsidy
   c) CDBG, Section 108(b)
   d) Public and Indian Loan Guarantee
   e) Loan Guarantee Recovery Fund
   f) Public and Indian Housing Loan Fund

B. Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method)
(dollars in millions):

	2001				
Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
FHA	$42	–	$(23)	–	$19
Housing for Elderly and Disabled	7,804	$98	(20)	$9	7,891
Low Rent Public Housing Loans	3	2	–	–	5
All Other	807	54	(583)	2	280
TOTAL	$8,656	$154	$(626)	$11	$8,195

	2000				
Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
FHA	$56	$2	$(32)	–	$26
Housing for Elderly and Disabled	7,923	83	(23)	$8	7,991
Low Rent Public Housing Loans	10	3	1	–	14
All Other	927	27	(652)	2	304
TOTAL	$8,916	$115	$(706)	$10	$8,335

C. Direct Loans Obligated After FY 1991 (dollars in millions):

2001

Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans
FHA	$1	$ –	$(2)	$ –	$(1)

2000

Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans
FHA	$1	$ –	$(2)	$ –	$ (1)

D. Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method) (dollars in millions):

2001

Direct Loan Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	Defaulted Guaranteed Loans Receivable, Net
FHA	$2,057	$91	$(1,292)	$259	$1,115

2000

Direct Loan Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	Defaulted Guaranteed Loans Receivable, Net
FHA	$2,305	$221	$(1,914)	$370	$982

E. Defaulted Guaranteed Loans From Post-FY 1991 Guarantees (dollars in millions):

2001

Direct Loan Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property, Gross	Value of Assets Related to Defaulted Guaranteed Loans
FHA	$793	$81	$(1,367)	$2,045	$1,552

Direct Loan Programs	Defaulted Guaranteed Loans Receivable, Gross (2000)	Interest Receivable (2000)	Allowance for Subsidy Cost (Present Value) (2000)	Foreclosed Property, Gross (2000)	Value of Assets Related to Defaulted Guaranteed Loans (2000)
FHA	$647	$7	$(1,218)	$2,278	$1,714

	2001	2000
Total Credit Program Receivables and Related Foreclosed Property, Net	**$10,861**	**$11,030**

F. Guaranteed Loans Outstanding (dollars in millions):

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value (2001)	Amount of Outstanding Principal Guaranteed (2001)
FHA Programs	$601,715	$555,463
All Other	2,049	2,049
TOTAL	$603,764	$557,512

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value (2000)	Amount of Outstanding Principal Guaranteed (2000)
FHA Programs	$590,000	$544,601
All Other	1,863	1,863
TOTAL	$591,863	$546,464

G. Liability for Loan Guarantees (Estimated Future Default Claims, Pre-1992) (dollars in millions):

Loan Guarantee Programs	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims (2001)	Liabilities for Loan Guarantees for Post-1991 Guarantees (Present Value) (2001)	Total Liabilities for Loan Guarantees (2001)
FHA Programs	$6,364	$(311)	$6,053
All Other	–	38	38
TOTAL	$6,364	$(273)	$6,091

Loan Guarantee Programs	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims (2000)	Liabilities for Loan Guarantees for Post-1991 Guarantees (Present Value) (2000)	Total Liabilities for Loan Guarantees (2000)
FHA Programs	$7,195	$327	$7,522
All Other	–	32	32
TOTAL	$7,195	$359	$7,554

H. Subsidy Expense for Post-FY 1991 Loan Guarantees:

Subsidy Expense for Current Year Loan Guarantees (dollars in millions)

	2001				
Loan Guarantee Programs	Endorsement Amount	Default Component	Fee Component	Other Component	Subsidy Amount
FHA	$122,639	$1,933	$ (4,555)	$ 334	$(2,288)
All Other	–	8	–	–	8
TOTAL	$122,639	$1,941	$ (4,555)	$334	$(2,280)

	2000				
Loan Guarantee Programs	Endorsement Amount	Default Component	Fee Component	Other Component	Subsidy Amount
FHA	$98,860	$2,385	$(4,594)	$461	$ (1,748)
All Other	–	11	–	–	11
TOTAL	$98,860	$2,396	$(4,594)	$461	$(1,737)

I. Foreclosed Property:

The average holding period of single family properties is approximately 6 months while the average holding period of multifamily properties is 2 years. Additional requirements are usually attached to FHA's foreclosed property to restrict future use or disposal of those assets. The following shows FHA's number of foreclosed properties resulting from loans and loan guarantees as of September 30, 2001 and 2000:

	Pre-1992		Post-1991	
Fiscal Year	Single Family	Multifamily	Single Family	Multifamily
FY 2001	6,644	54	22,962	1
FY 2000	9,229	62	24,869	2

FHA's outstanding principal balance of foreclosure proceedings in process as of September 30, 2001 and 2000 were as follows (dollars in millions):

	Pre-1992		Post-1991	
Fiscal Year	Single Family	Multifamily	Single Family	Multifamily
FY 2001	$10	$102	$4	$93
FY 2000	$0.2	$116	$0.1	$22

FHA's number of properties in foreclosure proceedings in process as of September 30, 2001 and 2000 were as follows (dollars in millions):

	Pre-1992		Post-1991	
Fiscal Year	Single Family	Multifamily	Single Family	Multifamily
FY 2001	225	54	61	18
FY 2000	4	2	2	3

Note 9 – Liabilities Covered and Not Covered by Budgetary Resources

The following shows HUD's liabilities as of September 30, 2001 and 2000 were as follows (dollars in millions):

	2001			2000		
Description	Covered	Not-Covered	Total	Covered	Not-Covered	Total
Intragovernmental						
Accounts Payable	–	–	–	$7	–	$7
Subsidy Re-Estimate Payable	$1,396	–	$1,396	517	–	517
Debt	4,853	$4,382	9,235	7,420	$ 5,001	12,421
Other Intragovernmental Liabilities	4,954	17	4,971	5,054	17	5,071
TOTAL INTRAGOVERNMENTAL LIABILITIES	$11,203	$4,399	$15,602	$12,998	$5,018	$18,016
Accounts Payable	954	–	954	901	–	901
Liabilities for Loan Guarantees	6,091	–	6,091	7,554	–	7,554
Unearned Premiums	555	–	555	682	–	682
Debentures Issued to Claimants	221	–	221	218	–	218
Insurance Liabilities	354	–	354	174	–	174
Loss Reserves	535	–	535	533	–	533
Debt	31	2,465	2,496	75	2,739	2,814
Other Liabilities	687	146	833	805	136	941
TOTAL LIABILITIES	$20,631	$7,010	$27,641	$23,940	$7,893	$31,833

Note 10 – Debt

Several HUD programs have the authority to borrow funds from the U.S. Treasury for program operations. Additionally, the National Housing Act authorizes FHA, in certain cases, to issue debentures in lieu of cash to pay claims. Also, PHAs and TDHEs borrowed funds from the private sector and from the Federal Financing Bank (FFB) to finance construction and rehabilitation of low rent housing. HUD is repaying these borrowings on behalf of the PHAs and TDHEs.

The following shows HUD borrowings, and borrowings by PHAs/TDHEs for which HUD is responsible for repayment, as of September 30, 2001 (dollars in millions):

Description	Beginning Balance	Net Borrowings	Ending Balance
Agency Debt:			
Held by Government Accounts	$1,431	$(1)	$1,430
Held by the Public	3,032	(315)	2,717
Total Agency Debt	$4,463	$(316)	$4,147
Other Debt:			
Debt to the U.S. Treasury	$10,979	$(3,182)	$7,797
Debt to the Federal Financing Bank	11	(3)	8
Total Other Debt	$10,990	$(3,185)	$7,805
TOTAL DEBT	$15,453	$(3,501)	$11,952
Classification of Debt:			
Intragovernmental Debt			$9,235
Debt held by the Public			2,496
Debentures Issued to Claimants			221
TOTAL DEBT			$11,952

The following shows HUD borrowings, and borrowings by PHAs/TDHEs for which HUD is responsible for repayment, as of September 30, 2000 (dollars in millions):

Description	Beginning Balance	Net Borrowings	Ending Balance
Agency Debt:			
Held by Government Accounts	$1,507	$(77)	$1,430
Held by the Public	3,211	(179)	3,032
Total Agency Debt	$4,718	$(256)	$4,462
Other Debt:			
Debt to the U.S. Treasury	$12,827	$(1,847)	$10,980
Debt to the Federal Financing Bank	14	(3)	11
Total Other Debt	$12,841	$(1,850)	$10,991
TOTAL DEBT	$17,559	$(2,106)	$15,453
Classification of Debt:			
Intragovernmental Debt			$12,421
Debt held by the Public			2,814
Debentures Issued to Claimants			218
TOTAL DEBT			$15,453

Interest paid on borrowings during the year ended September 30, 2001 and 2000 were $1.2 billion and $1.1 billion, respectively. The purposes of these borrowings are discussed in the following paragraphs.

Borrowings from the U.S. Treasury

HUD is authorized to borrow from the U.S. Treasury to finance Housing for Elderly and Disabled loans. The Treasury borrowings typically have a 15-year term, but may be repaid prior to maturity at HUD's discretion. However, such borrowings must be repaid in the sequence in which they were borrowed from Treasury. The interest rates on the borrowings are based on Treasury's 30-year bond yield at the time the notes are issued. Interest is payable on April 30 and October 31. Interest rates ranged from 7.44 percent to 9.2 percent during fiscal 2001 and 7.44 percent to 11.06 percent for fiscal 2000.

In fiscal 2001 and 2000, FHA borrowed $901million and $703 million respectively from the U.S. Treasury. The borrowings were needed when FHA initially determined negative credit subsidy amounts related to new loan disbursements or to existing loan modifications. In some instances, borrowings were needed where available cash was less than claim payments due or downward subsidy-estimates. All borrowings were made by FHA's financing accounts. Negative subsidies were generated primarily by the MMI/CMHI Fund financing account; downward re-estimates have occurred from activity of the FHA's loan guarantee financing accounts. These borrowings carried interest rates ranging from 5.68 percent to 7.59 percent during fiscal 2001, and 5.36 percent to 7.59 percent during fiscal 2000.

Borrowings from the Federal Financing Bank (FFB) and the Public

During the 1960s, 1970s, and 1980s, PHAs obtained loans from the private sector and from the FFB to finance development and rehabilitation of low rent housing projects. HUD is repaying these borrowings on behalf of the PHAs, through the Low Rent Public Housing program. For borrowings from the Public, interest is payable throughout the year. Interest rates range from 2.25 percent to 6 percent for both fiscal 2001 and 2000. The borrowings from the FFB have terms up to 40 years; the borrowings from the private sector have terms up to 30 years. FFB interest is payable annually on November 1. Interest rates range from 10.67 percent to 16.18 percent for both fiscal 2001 and 2000.

Before July 1, 1986, the FFB purchased notes issued by units of general local government and guaranteed by HUD under Section 108. These notes had various maturities and carried interest rates that were one-eighth of one percent above rates on comparable Treasury obligations. The FFB still holds substantially all outstanding notes, and no note purchased by the FFB has ever been declared in default.

Debentures Issued To Claimants

The National Housing Act authorizes FHA, in certain cases, to issue debentures in lieu of cash to settle claims. FHA-issued debentures bear interest at rates established by the U.S. Treasury. Interest rates related to the outstanding debentures ranged from 4 percent to 12.88 percent in fiscal 2001 and from 4 percent to 13.38 percent in fiscal 2000. Debentures may be redeemed by lenders prior to maturity to pay mortgage insurance premiums to FHA, or they may be called with the approval of the Secretary of the U. S. Treasury.

Note 11 – Other Liabilities

The following shows HUD's Other Liabilities as of September 30, 2001 (dollars in millions):

Description	Non-Current	Current	Total
Intragovernmental Liabilities			
FHA Payable from Unapplied Receipts Recorded by Treasury	–	–	–
HUD-Section 312 Rehabilitation Program Payable	–	$8	$8
Unfunded FECA Liability	–	17	17
Resource Payable to Treasury	$4,407	–	4,407
Miscellaneous Receipts Payable to Treasury	511	–	511
Other Liabilities	–	28	28
TOTAL INTRAGOVERNMENTAL LIABILITIES	$4,918	$ 53	$ 4,971
Other Liabilities			
FHA Other Liabilities	$36	$278	$314
FHA Escrow Funds Related to Mortgage Notes	–	158	158
Ginnie Mae Accounts Payable and Accrued Liabilities	–	50	50
Deferred Credits	–	4	4
Deposit Funds	–	75	75
Accrued Unfunded Annual Leave	62	1	63
Accrued Funded Payroll Benefits	49	–	49
Federal Employee and Veteran's Benefit	85	–	85
Other	34	1	35
TOTAL OTHER LIABILITIES	$5,184	$620	$ 5,804

The following shows HUD's Other Liabilities as of September 30, 2000 (dollars in millions):

Description	Non-Current	Current	Total
Intragovernmental Liabilities			
FHA Payable from Unapplied Receipts Recorded by Treasury	–	–	–
HUD- Section 312 Rehabilition Program Payable	–	$7	$7
Unfunded FECA Liability	–	17	17
Resource Payable to Treasury	$4,451	–	4,451
Miscellaneous Receipts Payable to Treasury	591	–	591
Other Liabilities	–	5	5
TOTAL INTRAGOVERNMENTAL LIABILITIES	$5,042	$29	$5,071
Other Liabilities			
FHA Other Liabilities	$34	$250	$284
FHA Escrow Funds Related to Mortgage Notes	–	159	159
Ginnie Mae Accounts Payable and Accrued Liabilities	–	42	42
Deferred Credits	–	213	213
Deposit Funds	–	85	85
Accrued Unfunded Annual Leave	61	–	61
Federal Employee and Veteran's Benefit	75	–	75
Other	22	–	22
TOTAL OTHER LIABILITIES	$5,234	$778	$6,012

Note 12 – Loss Reserves

For fiscal 2001 and 2000, Ginnie Mae established loss reserves of $535 million and $533 million, respectively, which represents probable defaults by issuers of mortgage-backed securities, through a provision charged to operations. The reserve is relieved as losses are realized from the disposal of the defaulted issuers' portfolios. Ginnie Mae recovers part of its losses through servicing fees on the performing portion of the portfolios and the sale of servicing rights that inure to Ginnie Mae upon the default of the issuer. Ginnie Mae management believes that its reserve is adequate to cover probable losses from defaults by issuers of Ginnie Mae guaranteed mortgage-backed securities.

Ginnie Mae incurs losses when insurance and guarantees do not cover expenses that result from issuer defaults. Such expenses include: (1) unrecoverable losses on individual mortgage defaults because of coverage limitations on mortgage insurance or guarantees, (2) ineligible mortgages included in defaulted Ginnie Mae pools, (3) improper use of proceeds by an issuer, and (4) non reimbursable administrative expenses and costs incurred to service and liquidate portfolios of defaulted issuers.

Note 13 – Unexpended Appropriations

HUD receives appropriations on both an annual and multiyear basis for all non-revolving fund activity. Unexpended appropriations are amounts not yet expended, which have not lapsed, been rescinded, or been withdrawn. The following is an analysis of HUD's fiscal 2001 Unexpended Appropriations (dollars in millions):

	Unobligated				
Description	Available	Unavailable	Undelivered Orders	Accounts Receivable from Public	Total
FHA – Subsidized Programs	$1,878	$94	$78	–	$2,050
FHA – Unsubsidized Programs	11	3	65	–	79
Section 8 Rental Assistance	1,675	10	15,978	$150	17,813
CDBG	1,029	25	9,053	–	10,107
HOME	284	–	4,376	–	4,660
Operating Subsidies	141	–	1,652	–	1,793
Low Rent Public Housing Loans and Grants	862	–	8,569	636	10,067
Section 202/811	2,843	–	4,056	–	6,899
All Other	2,570	110	7,156	1	9,837
Total	$11,293	$242	$50,983	$787	$63,305

The following is an analysis of HUD's fiscal 2000 Unexpended Appropriations (dollars in millions):

Description	Unobligated Available	Unobligated Unavailable	Undelivered Orders	Accounts Receivable from Public	Total
FHA – Subsidized Programs	$948	$36	$ 78	–	$1,062
FHA – Unsubsidized Programs	9	–	80	–	89
Section 8 Rental Assistance	10	3	17,584	$3	17,600
CDBG	888	15	9,017	5	9,925
HOME	189	–	4,092	1	4,282
Operating Subsidies	55	1	1,590	–	1,646
Low Rent Public Housing Loans and Grants	1,641	–	7,893	731	10,265
Section 202/811	2,687	–	3,974	–	6,661
All Other	2,515	124	6,700	1	9,340
TOTAL	$8,942	$179	$51,008	$741	$60,870

Note 14 – Financial Instruments with Off-Balance Sheet Risk

Some of HUD's programs, principally those operated through FHA and Ginnie Mae, enter into financial arrangements with off-balance sheet risk in the normal course of their operations.

A. FHA Mortgage Insurance

Unamortized insurance in force outstanding for FHA's mortgage insurance programs as of September 30, 2001 and 2000, was $602 billion and $590 billion, respectively and is discussed in Note 8F.

B. Ginnie Mae Mortgage-Backed Securities

Ginnie Mae financial instruments with off-balance sheet risk include guarantees of Mortgage-Backed Securities (MBS) and commitments to guaranty MBS. The securities are backed by pools of FHA-insured, RHS-insured, and VA-guaranteed mortgage loans. Ginnie Mae is exposed to credit loss in the event of non-performance by other parties to the financial instruments. The total amount of Ginnie Mae guaranteed securities outstanding at September 30, 2001 and 2000, was approximately $604 billion. However, Ginnie Mae's potential loss is considerably less because the FHA and RHS insurance and VA guaranty serve to indemnify Ginnie Mae for most losses. Also, as a result of the structure of the security, Ginnie Mae bears no interest rate or liquidity risk.

During the mortgage closing period and prior to granting its guaranty, Ginnie Mae enters into commitments to guaranty MBS. The commitment ends when the MBS are issued or when the commitment period expires. Ginnie Mae's risks related to outstanding commitments are much less than for outstanding securities due, in part, to Ginnie Mae's ability to limit commitment authority granted to individual issuers of MBS. Outstanding commitments as of September 30, 2001 and 2000, were $43 billion and $36 billion, respectively. Generally, Ginnie Mae's MBS pools are diversified among issuers and geographic areas. No significant geographic concentrations of credit risk exist; however, to a limited extent, securities are concentrated among issuers.

In fiscal 2001 and 2000, Ginnie Mae issued a total of $67 billion and $42 billion respectively in its multi-class securities program. The estimated outstanding balance at September 30, 2001 and 2000, were $166 billion and $136 billion, respectively. These guaranteed securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the MBS program.

C. Section 108 Loan Guarantees

Under HUD's Section 108 Loan Guarantee program, recipients of CDBG Entitlement Grant program funds may pledge future grant funds as collateral for loans guaranteed by HUD (these loans were provided from private lenders since July 1, 1986). This Loan Guarantee Program provides entitlement communities with a source of financing for projects that are too large to be financed from annual grants. The amount of loan guarantees outstanding as of September 30, 2001 and 2000, were $1.9 billion and $1.8 billion, respectively. HUD's management believes its exposure in providing these loan guarantees is limited, since loan repayments can be offset from future CDBG Entitlement Program Funds and, if necessary, other funds provided to the recipient by HUD. HUD has never had a loss under this program since its inception in 1974.

Note 15 – Contingencies

Lawsuits and Other

HUD is party in various legal actions and claims brought against it. In the opinion of HUD's management and General Counsel, the ultimate resolution of these legal actions and claims will not materially affect HUD's financial position or results of operations for the fiscal year ended September 30, 2001 and 2000. Payments made out of the Claims, Judgments and Relief Acts Fund in settlement of the legal proceedings are subject to the Department of Justice's approval.

A case was filed by owners of 43 multifamily projects regarding alleged breach of owners' mortgage contracts effected by the Emergency Low-Income Housing Preservation Act of 1987 (ELIHPA) and the Low-Income Housing Preservation and Resident Homeownership Act of 1990 (LIHPRHA). The Court of Federal Claims has ruled that the project owners' mortgage contracts had been breached by implementation of ELIHPA and LIHPRHA, and held a trial in November 1996 to determine damages, if any, with respect to that claim. The court awarded $3,061,107 in damages to the Plaintiffs for four "test" properties jointly selected by the parties. The United States appealed this judgment. On December 7, 1998, the United States Court of Appeals for the Federal Circuit reversed the judgment of the Court of Federal Claims, holding that ELIHPA and LIHPRHA did not breach contract between the plaintiffs and HUD. The Federal Circuit remanded the action to the Court of Federal claims for consideration of the plaintiffs' takings claim. On March 11, 1999, the Federal Circuit denied rehearing and declined rehearing en banc. On October 4, 1999, the United States Supreme Court denied certiorari.

In April 2000, the Court of Federal Claims held that because plaintiffs had chosen not to pursue their prepayment options through the statutorily required process, their takings claims were not ripe for review. HUD's motion for summary judgment was granted as to both the takings claims and the breach of contract claim; and the complaint was dismissed. On June 23, 2000, plaintiffs in this case filed a notice of appeal to the Federal Circuit. On

September 18, 2001, the United States Court of Appeals for the Federal Circuit reversed the Court of Federal Claims decision which had held that plaintiff's taking claims were not ripe for review. The Federal Circuit remanded the case to the Court of Federal Claims to adjudicate the takings claims of the four model plaintiffs and of the owners of the 39 other plaintiff project owners so that, if the factual circumstances of any or all of the remaining owners present a similarly compelling case of administrative futility, the trial court should adjudicate their takings claims, as well.

On December 5, 2001, in the related case, the court granted the Government's motion for summary judgment with respect to plaintiff's taking claims and dismissed the complaint. The Court concluded that the prepayment rights contained in the mortgage loan notes between plaintiffs and their private lending institutions are not property protected by the Fifth Amendment's just Compensation Clause.

On January 8, 2002, the court issued an order directing that judgment be entered for the Government based upon the court's opinion issued in the related case of December 5, 2001. The plaintiffs filed their Notice of Appeal on January 11, 2002.

In two-dozen similar ELIPHA/ LIHPRHA cases, involving almost 800 project owners nationwide, which were brought between 1987 and 1996, several have been dismissed, and the dismissal affirmed or not appealed. As of September 2001, only 11 cases (involving 243 projects) were still pending.

The United States intends to continue to defend the remaining LIHPRHA cases vigorously. HUD is unable at this time to form a judgment about the likelihood of an unfavorable outcome, or to make an estimate of the amount or range of potential loss if the plaintiffs should prevail. Any adverse judgment would be paid out of the permanent indefinite appropriation established by 31 U.S.C. Section 1304 (the Government's Judgment Fund).

Note 16 – Rental Housing Subsidy Payment Errors

In support of HUD's fiscal 2001 financial statements, the Department developed statistical estimates of the extent of erroneous rental housing subsidy payments attributed to under-reported tenant income and program processing errors by the public housing authorities, owners and agents (POAs) responsible for program administration. Estimates are based on prior year data from 2000, because this is the most recent period for which comprehensive independent sources of tenant income data are available for verification purposes.

Under HUD's rental assistance housing programs, tenants generally are required to pay 30 percent of their income towards rent, with HUD providing the balance of the rental payment. New applicants provide certain information on household characteristics, income, assets and expense activities used in determining the proper amount of rent they are to pay. Existing tenants are required to recertify their income on an annual basis, and in certain other circumstances when there are significant changes in household income. Applicant or tenant failure to correctly estimate their income, or the failure of the responsible POA to correctly process, calculate and bill the tenant's rental assistance, may result in the Department's overpayment or underpayment of housing subsidies.

In 2000, HUD began to expand the scope of its error measurement methodology to cover the three primary types of rental housing assistance program errors, including errors related to: 1) POA income and rent determinations, 2) tenant reporting of income, and 3) POA billings for subsidy payments. The current error measurement methodology addresses the first two of these three components, and has been improved to provide for interviewing a representative sample of tenants, verifying and validating tenant income reporting, and recalculating rents for comparison to POA determinations for the purpose of identifying errors. The below estimations are considered a baseline error measurement for the POA rent determination and tenant income reporting components. The estimated payment error attributed to tenant underreporting of income is higher than the prior year estimate of this error component, due to revisions in the methodology used for measuring this type of error. Past estimates only considered the impacts of underreported income amounts over a $3,000 threshold using a sample of tenants in HUD data systems. The methodology was revised this year to lower the threshold to $1,000 to better reflect program requirements, and was based on a random selection of all tenants, including those who were not covered by past income matching efforts. HUD plans to expand its baseline error measurement to cover the subsidy-billing component in 2002. Starting in 2003, HUD intends to annually measure and report on all three error components.

HUD estimates of erroneous payments attributed to POA rent calculation and processing errors were based on a HUD Office of Policy Development and Research (PD&R) study of "Quality Control for Rental Assistance Subsidies Determinations," which was published as a final report in June 2001. This PD&R study verified rent calculations for a representative sample of 2,403 households receiving assistance in 2000. The study found that 60 percent of the calculations had some type of administrative or calculation component error contributing to a subsidy overpayment or underpayment situation. Errors were considered if they exceeded a $5 impact threshold on monthly subsidy payment amounts. The study projected, with 95 percent confidence, annual subsidy overpayments of $1.669 billion ± $251 million and annual subsidy underpayments of $634 million ± $151 million, due to errors attributable to program administration by POAs.

In developing the estimate of subsidy overpayments attributed to tenant underreporting of income, the Department used the same PD&R sample of 2,403 households assisted in 2000, and compared earned and unearned household income reported to the POAs to income data from Social Security Administration (SSA) and Internal Revenue Service (IRS) databases. Identified cases of possible undisclosed income sources were verified with employers and further examined to determine if the income discrepancies would affect the computation of the correct HUD rental subsidy amount, or if the income discrepancies were attributed to other causes not affecting the subsidy amount, such as: data entry errors in any of the systems involved in the matching process, timing differences in the income data being considered, or tenant income excluded by program regulation. Validated income discrepancies were further assessed against the original POA error estimates for these sample cases to eliminate any duplication. Based on the results of this review, the Department projects, with 95 percent confidence, that the amount of subsidy overpayments attributed to tenant underreporting of income was $978 million ± $247 million.

The combined effect of the estimated $1.669 billion of overpayments and $634 million of underpayments attributed to POA program processing errors, plus the $978 million of overpayments attributed to tenant underreporting of income, yields a gross payment error estimate of $3.281 billion. Offsetting the overpayment and underpayment error estimates yields a net annual subsidy overpayment estimate of $2.013 billion, which represents approximately 10.7 percent of the $18.883 billion in total rental subsidies paid by HUD in fiscal 2000.

HUD is taking actions to address the causes of erroneous subsidy payments, and is instituting necessary controls to better assure that payments are made in the correct amounts, in accordance with program statutory and regulatory requirements. HUD's goal is to reduce processing errors and resulting erroneous payments 50 percent by 2005. It should be noted that the reduction of errors and improper payments may not have as significant an impact on budget outlays as anticipated. HUD's experience indicates that its efforts may have the possible effect of causing some higher income tenants to leave subsidized housing with the potential result that they would be replaced by lower income tenants requiring increased outlays. To the extent there would be any significant outlay savings resulting from HUD's program integrity improvement efforts, HUD plans to work with OMB and the Congress to explore mechanisms for reuse of the funds to assist additional households in need.

Note 17 – Total Cost and Earned Revenue by Budget Functional Classification

The following shows HUD's total cost and earned revenue by budget functional classification for fiscal 2001 (dollars in millions):

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
Intragovernmental:			
Commerce and Housing Credit	$ 829	$430	$399
Community and Regional Development	70	2	68
Income Security	273	12	261
Administration of Justice	–	–	–
Miscellaneous	–	–	–
TOTAL INTRAGOVERNMENTAL	$1,172	$444	$728
With the Public:			
Commerce and Housing Credit	$100	$4,373	$(4,273)
Community and Regional Development	5,354	5	5,349
Income Security	28,893	(130)	29,023
Administration of Justice	37	–	37
Miscellaneous	–	–	–
TOTAL WITH THE PUBLIC	$34,384	$4,248	$30,136
TOTAL:			
Commerce and Housing Credit	$929	$4,803	$(3,874)
Community and Regional Development	5,424	7	5,417
Income Security	29,166	(118)	29,284
Administration of Justice	37	–	37
Miscellaneous	–	–	–
TOTAL:	$35,556	$4,692	$30,864

The following shows HUD's total cost and earned revenue by budget functional classification for fiscal 2000 (dollars in millions):

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
Intragovernmental:			
Commerce and Housing Credit	$938	$1,837	$(899)
Community and Regional Development	51	2	49
Income Security	352	(73)	425
Administration of Justice	–	–	–
Miscellaneous	–	–	–
TOTAL INTRAGOVERNMENTAL	$1,341	$1,766	$(425)
With the Public:			
Commerce and Housing Credit	$3,020	$3,134	$(114)
Community and Regional Development	5,293	6	5,287
Income Security	27,891	30	27,861
Administration of Justice	35	–	35
Miscellaneous	–	–	–
TOTAL WITH THE PUBLIC	$36,239	$3,170	$33,069
TOTAL:			
Commerce and Housing Credit	$3,958	$4,971	$(1,013)
Community and Regional Development	5,344	8	5,336
Income Security	28,243	(43)	28,286
Administration of Justice	35	–	35
Miscellaneous	–	–	–
TOTAL:	$37,580	$4,936	$32,644

Fiscal 2000 total cost and earned revenues were restated to more accurately reflect the department's net cost by Budget Functional Classifications (BFC). Costs and revenues previously reported under the Miscellaneous BFC have been added to the Income and Security BFC, with the exception of $263 million reduction in revenues and $263 million reduction in cost, which should have been reported under the Community and Regional Development BFC. These costs and revenues are intra-department elimination entries associated with appropriations reported under the Community and Regional Development and Income and Security BFCs.

Consolidating Financial Statements

(By Major Program Area)

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
CONSOLIDATING BALANCE SHEET AS OF SEPTEMBER 30, 2001

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Elimination	Consolidating
ASSETS											
Entity Assets											
Intragovernmental											
Fund Balance with Treasury (Note 2)	$8,822	$2,043	$18,041	$10,149	$4,669	$1,829	$10,271	$7,065	$10,439		$73,328
Investments (Note 4)	17,331	6,641									23,972
Accounts Receivable, Net (Note 6)	9								8	$(8)	9
Other Assets (Note 7)	86		2	6	6		10		30	(91)	49
Total Intragovernmental Assets	$26,248	$8,684	$18,043	$10,155	$4,675	$1,829	$10,281	$7,065	$10,477	($99)	$97,358
Accounts Receivable, Net (Note 6)	334	33	391						5		763
Credit Program Receivables (Note 8)	2,685						5	7,891	280		10,861
Other Assets (Note 7)	125	22							66		213
TOTAL ASSETS	$29,392	$8,739	$18,434	$10,155	$4,675	$1,829	$10,286	$14,956	$10,828	($99)	$109,195
LIABILITIES											
Intragovernmental Liabilities											
Accounts Payable				$5					$3	($8)	$0
Debt (Note 10)	$4,544						$1,430	3,253	8		$9,235
Subsidy Re-Estimate Payable	1,396										1,396
Other Intragovernmental Liabilities (note 11)	30		$510					4,406	116	(91)	4,971
Total Intragovernmental Liabilities	$5,970		$510	$5	$0	$0	$1,430	$7,659	$127	($99)	$15,602
Accounts Payable	653	$30	105	39	14	32	35	9	37		954
Liabilities for Loan Guarantees (Note 8)	6,053								38		6,091
Debt (Note 10)							2,496				2,496
Unearned Premiums	555										555
Debentures Issued to Claimants (Note 10)	221										221
Loss Reserves (Note 12)		535									535
Insurance Liabilities	354										354
Other Governmental Liabilities (Note 11)	472	50	7	4	1	4	6	24	265		833
TOTAL LIABILITIES	$14,278	$615	$622	$48	$15	$36	$3,967	$7,692	$467	($99)	$27,641
NET POSITION											
Unexpended Appropriations (Note 13)	$2,129		$17,812	$10,107	$4,660	$1,793	$10,068	$6,899	$9,837		$63,305
Cumulative Results of Operations	12,985	$8,124					(3,749)	365	524		18,249
TOTAL NET POSITION	$15,114	$8,124	$17,812	$10,107	$4,660	$1,793	$6,319	$7,264	$10,361		$81,554
TOTAL LIABILITIES AND NET POSITION	$29,392	$8,739	$18,434	$10,155	$4,675	$1,829	$10,286	$14,956	$10,828	($99)	$109,195

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
CONSOLIDATING BALANCE SHEET AS OF SEPTEMBER 30, 2000

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Consolidating
ASSETS										
Intragovernmental										
Fund Balance with Treasury (Note 2)	$7,915	$1,618	$17,751	$9,979	$4,296	$1,730	$10,458	$6,961	$9,913	$70,621
Investments (Note 4)	17,312	6,260								23,572
Accounts Receivable (Net) (Note 6)	19								1	20
Other Assets (Note 7)	49									49
Total Intragovernmental Assets	$25,295	$7,878	$17,751	$9,979	$4,296	$1,730	$10,458	$6,961	$9,914	$94,262
Accounts Receivable, Net (Note 6)	176	32	669	5	1		6		22	911
Credit Program Receivables (Note 8)	2,721						13	7,992	304	11,030
Other Assets (Note 7)	90	9							30	129
TOTAL ASSETS	$28,282	$7,919	$18,420	$9,984	$4,297	$1,730	$10,477	$14,953	$10,270	$106,332
LIABILITIES										
Intragovernmental Liabilities										
Accounts Payable	$1		$4						$2	$7
Debt (Note 10)	7,155						1,431	3,824	11	12,421
Subsidy Re-Estimate Payable	517									517
Other Intragovernmental Liabilities (Note 11)	7		516					4,452	96	5,071
Total Intragovernmental Liabilities	$7,680		$520	$0	$0	$0	$1,431	$8,276	$109	$18,016
Accounts Payable	505	25	86	59	15	83	49	6	73	901
Liabilities for Loan Guarantees (Note 8)	7,522								32	7,554
Debt (Note 10)							2,814			2,814
Unearned Premiums	682									682
Debentures Issued to Claimants (Note 10)	218									218
Loss Reserves (Note 12)		533								533
Insurance Liabilities	174									174
Other Governmental Liabilities (Note 11)	443	42	214				9	10	223	941
TOTAL LIABILITIES	$17,224	$600	$820	$59	$15	$83	$4,303	$8,292	$437	$31,833
NET POSITION										
Unexpended Appropriations (Note 13)	$1,151		$17,600	$9,925	$4,282	$1,647	$10,264	$6,661	$9,340	$60,870
Cumulative Results of Operations	9,907	7,319					(4,090)		493	13,629
TOTAL NET POSITION	$11,058	$7,319	$17,600	$9,925	$4,282	$1,647	$6,174	$6,661	$9,833	$74,499
TOTAL LIABILITIES AND NET POSITION	$28,282	$7,919	$18,420	$9,984	$4,297	$1,730	$10,477	$14,953	$10,270	$106,332

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 2001

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Consolidating
NET COST OF OPERATIONS	($2,724)	($805)	$16,794	$4,980	$1,436	$3,147	$4,055	$433	$3,548	$30,864
Financing Sources (other than exchange revenue)										
Appropriations Used	(1,370)		(16,743)	(4,925)	(1,418)	(3,087)	(4,339)	(772)	(3,578)	(36,232)
Imputed Financing	(14)								(56)	(70)
Transfers (In) / Out	1,284								(204)	1,080
Other Financing Sources	7		(51)	(55)	(18)	(60)	(57)	(26)	260	
NET RESULTS OF OPERATIONS	($2,817)	($805)	$0	$0	$0	$0	($341)	(365)	($30)	($4,358)
Prior Period Adjustments	(261)									(261)
Net Changes in Cumulative Results of Operations	($3,078)	($805)	$0	$0	$0	$0	($341)	($365)	($30)	($4,619)
Change in Unexpended Appropriations	(978)		(212)	(182)	(378)	(146)	196	(238)	(498)	(2,436)
CHANGE IN NET POSITION	($4,056)	($805)	($212)	($182)	($378)	($146)	($145)	($603)	($528)	($7,055)
NET POSITION-BEGINNING OF PERIOD	(11,058)	(7,319)	(17,600)	(9,925)	(4,282)	(1,647)	(6,174)	(6,661)	(9,833)	(74,499)
NET POSITION-END OF PERIOD	($15,114)	($8,124)	($17,812)	($10,107)	($4,660)	($1,793)	($6,319)	($7,264)	($10,361)	($81,554)

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 2000

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Consolidating
NET COST OF OPERATIONS	$46	($763)	$15,990	$5,012	$1,499	$2,889	$4,168	$404	$3,399	$32,644
Financing Sources (other than exchange revenue)										
Appropriations Used	(1,124)		(15,990)	(5,012)	(1,499)	(2,889)	(4,171)	(733)	(3,027)	(34,445)
Imputed Financing	(11)								(38)	(49)
Transfers (In) / Out	436								(234)	202
Other Financing Sources									35	35
NET RESULTS OF OPERATIONS	($653)	($763)	$0	$0	$0	$0	($3)	($329)	$135	($1,613)
Prior Period Adjustments	(8)								(13)	(21)
Net Change in Cumulative Results of Operations	($661)	($763)	$0	$0	$0	$0	($3)	($329)	$122	($1,634)
Change in Unexpended Appropriations	(837)		4,260	7	(148)	(268)	(446)	133	(632)	2,069
CHANGE IN NET POSITION	($1,498)	($763)	$4,260	$7	($148)	($268)	($449)	($196)	($510)	$435
NET POSITION-BEGINNING OF PERIOD	(9,560)	(6,556)	(21,860)	(9,932)	(4,134)	(1,379)	(5,725)	(6,465)	(9,323)	(74,934)
NET POSITION-END OF PERIOD	($11,058)	($7,319)	($17,600)	($9,925)	($4,282)	($1,647)	($6,174)	($6,661)	($9,833)	($74,499)

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
COMBINING STATEMENT OF BUDGETARY RESOURCES
FOR THE YEAR ENDED SEPTEMBER 2001

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Consolidating
BUDGETARY RESOURCES:										
Budget Authority	$8,634		$18,941	$5,602	$1,800	$3,242	$4,169	$1,083	$4,123	$47,594
Net Transfers, Current Year Auth									6	6
Unobligated Balance – Beginning of Year	23,476	$7,839	2,958	903	189	57	1,714	2,876	4,183	44,195
Spending Authority from Offsetting Collections	17,842	918	(27)	0	(4)	(1)	77	793	1,071	20,669
Adjustments										
Recoveries of PriorYear Obligation	20		2,583	14	9	3	55	59	536	3,279
Permanently Not Available										
Cancelled-Expired & NoYear Accts			(8)	(5)		(1)			(42)	(56)
Enacted Recissions PriorYear Bal	(2)		(1,971)	(490)	(4)	(7)	(48)	(2)	(10)	(2,534)
Capital Trans & Debt Redemption	(4,880)						(94)	(666)	(123)	(5,763)
Other Authority Withdrawn			(5,149)				(584)		(1,130)	(6,863)
TOTAL BUDGETARY RESOURCES	$45,090	$8,757	$17,327	$6,024	$1,990	$3,293	$5,289	$4,143	$8,614	$100,527
STATUS OF BUDGETARY RESOURCES:										
Obligations Incurred	$20,718	$151	$15,642	$4,970	$1,706	$3,152	$4,406	$1,221	$4,383	$56,349
Unobligated Balances Available	3,760		739	1,027	284	138	867	2,846	2,967	12,628
Unobligated Balances Not Yet Available	20,612	8,606	946	27	0	3	16	76	1,264	31,550
TOTAL STATUS OF BUDGETARY RESOURCES	$45,090	$8,757	$17,327	$6,024	$1,990	$3,293	$5,289	$4,143	$8,614	$100,527
OUTLAYS:										
Obligations Incurred	$20,718	$151	$15,642	$4,970	$1,706	$3,152	$4,406	$1,221	$4,383	$56,349
Less: Spending Authority From Offsetting Collections and Adjustments	17,842	918	(27)	0	(4)	(1)	77	793	1,071	20,669
Actual Recoveries-Prior Year Obligations	20		2,583	14	9	3	55	59	536	3,279
Obligated Balance, Net Beginning of Period	1,445	(63)	46,129	9,074	4,106	1,671	13,690	4,157	17,504	97,713
Obligated Balance Transferred, Net										
Less: Obligated Balance, Net – End of Period	1,477	(39)	42,495	9,091	4,383	1,683	13,711	4,215	16,865	93,881
TOTAL OUTLAYS	$2,824	($791)	$16,720	$4,939	$1,424	$3,138	$4,253	$311	$3,415	$36,233

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
COMBINING STATEMENT OF BUDGETARY RESOURCES
FOR THE YEAR ENDED SEPTEMBER 2000

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Consolidating
BUDGETARY RESOURCES:										
Budget Authority	$2,762		$7,279	$4,833	$1,636	$3,167	$3,606	$929	$3,630	$27,842
Net Transfers, Current Year Authority			124	29	10				(33)	130
Unobligated Balance – Beginning of Year	19,953	$7,024	5,955	947	194	23	2,790	3,665	4,232	44,783
Net Transfers Prior Year Balance, Actual			(233)				46		63	(124)
Spending Authority from Offsetting Collections	14,139	912					79	808	345	16,283
Adjustments										
Recoveries of Prior Year Obligation	171		1,885	13	3	8	137	22	229	2,468
Permanently Not Available										
Cancelled-Expired and No Year Accts				(3)		(10)			(41)	(54)
Enacted Recissions Prior Year Balance			(2,356)	(18)			(276)		(50)	(2,700)
Capital Trans and Debt Redemption	(1,545)						(95)	(1,247)	(53)	(2,940)
Other Authority Withdrawn									(165)	(165)
TOTAL BUDGETARY RESOURCES	$35,480	$7,936	$12,654	$5,801	$1,843	$3,188	$6,287	$4,177	$8,157	$85,523
STATUS OF BUDGETARY RESOURCES:										
Obligations Incurred	$12,004	$97	$9,696	$4,899	$1,654	$3,132	$4,573	$1,300	$3,973	$41,328
Unobligated Balances Available	4,907		1,208	879	185	46	1,671	2,746	2,794	14,436
Unobligated Balances Not Yet Available	18,569	7,839	1,750	23	4	10	43	131	1,390	29,759
TOTAL STATUS OF BUDGETARY RESOURCES	$35,480	$7,936	$12,654	$5,801	$1,843	$3,188	$6,287	$4,177	$8,157	$85,523
OUTLAYS:										
Obligations Incurred	$12,004	$97	$9,696	$4,899	$1,654	$3,132	$4,573	$1,300	$3,973	$41,328
Less: Spending Authority From Offsetting Collections and Adjustments	14,139	912					79	808	345	16,283
Actual Recoveries-Prior Year Obligations	171		1,885	13	3	8	137	22	229	2,468
Obligated Balance, Net Beginning of Period	1,468	(46)	54,727	9,009	3,944	1,412	13,752	3,996	16,934	105,196
Obligated Balance Transferred, Net			(333)	169	1		5		158	
Less: Obligated Balance, Net – End of Period	1,445	(63)	46,129	9,074	4,107	1,671	13,690	4,156	17,504	97,713
TOTAL OUTLAYS	($2,283)	($798)	$16,076	$4,990	$1,489	$2,865	$4,424	$310	$2,987	$30,060

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
COMBINING STATEMENT OF FINANCING
FOR THE YEAR ENDED SEPTEMBER 2001

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Consolidating
OBLIGATIONS AND NONBUDGETARY RESOURCES										
Obligations Incurred	$20,718	$151	$15,642	$4,970	$1,706	$3,152	$4,406	$1,221	$4,383	$56,349
Spending Authority from Offsetting Collections and Adjustments	(17,842)	(918)	27	(0)	4	1	(77)	(793)	(1,071)	(20,669)
Recoveries-Prior Year Obligations	(20)		(2,583)	(14)	(9)	(3)	(55)	(59)	(536)	(3,279)
Financing Imputed for Cost Subsidies	14								56	70
Transfers In (Out)	(203)								203	0
Exchange Revenue Not in the Budget							1	(15)	(52)	(66)
Non-Exchange Revenue Not in Budget			150						(10)	140
Exchange Revenue in the Budget								12	(6)	6
Other	(7)		51	55	18	59	57	27	(260)	0
TOTAL OBLIGATIONS AS ADJUSTED, AND NONBUDGETARY RESOURCES	$2,660	($767)	$13,287	$5,011	$1,719	$3,209	$4,332	$393	$2,707	$32,551
RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS										
Change in Amount of Goods, Services and Benefits Ordered, But Not Yet Received or Provided	$0	$0	$3,654	($36)	($283)	($62)	($18)	($75)	$697	3,877
Costs Capitalized on the Balance Sheet	5,498	(62)					78	115	129	5,758
Financing Sources that Fund Costs of Prior Periods	(8,298)			5			6		(76)	(8,363)
Other	(61)						(343)		51	(353)
TOTAL RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS	($2,861)	($62)	$3,654	($31)	($283)	($62)	($277)	$40	$801	$919
COSTS THAT DO NOT REQUIRE RESOURCES										
Depreciation and Amortization									$4	$4
Bad Debts Related to Uncollectible Non-Credit Reform Receivables	($327)		$3						(142)	(466)
Revaluation of assets & Liabilities	(831)									(831)
Loss of Disposition of Assets	697								51	748
Other	(4,035)	$24	(150)						116	(4,045)
TOTAL COSTS NOT REQUIRING RESOURCES	($4,496)	$24	(147)	$0	$0	$0	($0)	$0	$29	($4,590)
FINANCING SOURCES YET TO BE PROVIDED	$1,973	$0	$0	$0	$0	$0	$0	$0	$11	$1,984
NET COST OF OPERATIONS	($2,724)	($805)	$16,794	$4,980	$1,436	$3,147	$4,055	$433	$3,548	$30,864

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
COMBINING STATEMENT OF FINANCING
FOR THE YEAR ENDED SEPTEMBER 2000

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Consolidating
OBLIGATIONS AND NONBUDGETARY RESOURCES										
Obligations Incurred	$12,004	$97	$9,696	$4,899	$1,654	$3,132	$4,573	$1,300	$3,973	$41,328
Spending Authority from Offsetting Collections and Adjustments	(14,139)	(912)					(79)	(808)	(275)	(16,213)
Recoveries-Prior Year Obligations	(171)		(1,885)	(13)	(3)	(8)	(137)	(22)	(229)	(2,468)
Financing Imputed for Cost Subsidies	11								38	49
Transfers In (Out)	(233)								233	
Exchange Revenue Not in the Budget							(2)		66	64
Other								8		8
TOTAL OBLIGATIONS AS ADJUSTED, AND NONBUDGETARY RESOURCES	($2,528)	($815)	$7,811	$4,886	$1,651	$3,124	$4,355	$478	$3,806	$22,768
RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS										
Change in Amount of Goods, Services and Benefits Ordered, But Not Yet Received or Provided			$8,166	$131	($152)	($235)	$89	($197)	($493)	$7,309
Costs Capitalized on the Balance sheet	$1,907	$30					78	124	16	2,155
Financing Sources that Fund Costs of Prior Periods				(5)			(5)		(1)	(11)
Other	289						(349)		16	(44)
TOTAL RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS	$2,196	$30	$8,166	$126	($152)	($235)	($187)	($73)	($462)	$9,409
COSTS THAT DO NOT REQUIRE RESOURCES										
Depreciation and Amortization									$6	$6
Bad Debts Related to Uncollectible Non-Credit Reform Receivables	$78		$13					($1)	(20)	70
Revaluation of assets & Liabilities	(1,127)									(1,127)
Loss of Disposition of Assets	728									728
Other	(3,245)	$22							52	(3,171)
TOTAL COSTS NOT REQUIRING RESOURCES	($3,566)	$22	$13					($1)	$38	($3,494)
FINANCING SOURCES YET TO BE PROVIDED	$3,944								$17	$3,961
NET COST OF OPERATIONS	$46	($763)	$15,990	$5,012	$1,499	$2,889	$4,168	$404	$3,399	$32,644

Required Supplementary Stewardship Information (Unaudited)

Investment in Non-Federal Physical Property
Investment in Human Capital

This section provides information on certain resources entrusted to HUD. These resources do not meet the criteria for information required to be reported or audited in HUD's financial statements but are, nonetheless, important to understand HUD's operations and financial condition. The stewardship objective requires that HUD report on the broad outcomes of its actions. Such reporting will provide information that will help report users assess the impact of HUD's operations and activities. HUD's stewardship reporting responsibilities extend to investments made by a number of HUD programs in Non-Federal Physical Property and Human Capital. Due to the relative immateriality of the calculation and in the application of the related administrative costs, the amounts reported below reflect direct program costs only. The investments addressed in this section are due to programs administered through HUD's Offices of Community Planning and Development (CPD) and Office of Public and Indian Housing (PIH).

CPD seeks to develop viable communities by promoting integrated approaches that provide decent housing, a suitable living environment, and expanded economic opportunities for low- and moderate-income persons.

PIH ensures safe, decent, and affordable housing, creates opportunities for residents' self-sufficiency and economic independence, and assures the fiscal integrity of all program participants.

Investment In Non-Federal Physical Property

Non-Federal physical property investments support the purchase, construction, or major renovation of physical property owned by state and local governments. The Department funds the following programs, which generate Investments in Non-Federal Physical Property:

CPD Programs

Community Development Block Grants (CDBG) are provided to State and local communities, which in turn use these funds to support a wide variety of community development activities within their jurisdiction. These activities are designed to benefit low- and moderate-income persons, aid in the prevention of slums and blight, and meet other urgent community development needs. State and local communities are free to use the funds as they deem necessary, as long as the use of these funds meet at least one of these objectives. A portion of the funds was used to acquire or rehabilitate property owned by State and local governments.

Disaster Grants are provided to help State and local governments recover from major natural disasters. A portion of these funds can be used to acquire, rehabilitate or demolish physical property.

HOME provides formula grants to States and localities (used often in partnership with local nonprofit groups) to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for low-income persons.

PIH Programs

The Public Housing (PH) Capital Fund provides grants to Public Housing Agencies (PHAs) to improve the physical condition and to upgrade the management and operation of existing public housing.

HOPE VI grants are provided to PHAs, enabling them to improve the living environment of public housing residents in distressed public housing units. A portion of these funds is used to acquire or rehabilitate property owned by the PHAs.

Indian Housing Block Grants (IHBG) provides funds needed to allow tribal housing organizations maintain existing units and to begin development of new units to meet their critical long-term housing needs.

Indian Community Development Block Grants (ICDBG) provides funds to Indian organizations to develop viable communities, including decent housing, a suitable living environment and economic opportunities, principally for low and moderate-income recipients.

The Public Housing Drug Elimination Program (PHDEP) seeks to eliminate drug-related crime and activities in Public and Indian Housing communities. A portion of these funds is used to improve property owned by the PHAs and thus increase security and prevent crime at the properties. Congress has terminated funding for this program after FY 2001.

The following table summarizes material HUD Investments in Non-Federal Physical Property, by program:

HUD Investments in Non-Federal Physical Property, 1998-2001

(Dollars in Millions)

Program	1998	1999	2000	2001
CPD				
CDBG	$761	$603	$1,237	$1,189
Disaster Grants	39	29	198	56
HOME	–	–	34	24
PIH				
PH Capital Fund	$2,178	$2,414	$2,046	$1,863
HOPE VI	169	236	291	495
IHBG[1]	319	182	176	n/a
ICDBG	47	52	63	53
PHDEP[2]	11	10	6	4
TOTAL	$3,524	$3,526	$4,051	$3,684

[1] *2001 investment data is unavailable for FY 2001 due to transition in contractor support providing data. HUD expects to resume reporting information for IHBG in FY 2002.*

[2] *FY 1999 and 2000 investment results are restated ($7m and $10m reported in FY 2000, respectively) due to availability of more precise data. Congress has terminated funding for the PHDEP program for FY 2002.*

Investment In Human Capital

Human Capital investments support education and training programs intended to increase or maintain national economic productive capacity. The Department funds the following programs that generate Investments in Human Capital:

CPD Programs

Community Development Block Grants (CDBG): A portion of these grants is used to provide employment and job training to low and moderate-income persons.

YouthBuild grants are designed to assist younger individuals to obtain education, employment skills and meaningful work experience in a construction trade thus allowing them to become more productive and self-sufficient.

PIH Programs

HOPE VI grants provided to public housing agencies support improvement in the living environment of public housing residents in distressed public housing units. A portion of these funds is used to provide education and job training to residents of the public housing communities targeted for rehabilitation.

The table on the following page summarizes HUD investments in human capital by program:

HUD Investments in Human Capital FY 1998-2001
(Dollars in Millions)

Program	1998	1999	2000	2001
CPD:				
CDBG	$16	$21	$22	$25
Youthbuild	9	12	13	15
PIH:				
HOPE VI	27	22	29	55
TOTAL	$52	$55	$64	$95

Impacts of Human Capital Investments

CPD Programs

The following table presents the output (number of people trained) generated by human capital investments by CPD programs:

Number of People Trained

Program	1998	1999	2000	2001
CDBG[1]	120,037	131,000	252,800	127,565
Youthbuild	2,264	2,752	3,000	3,614
TOTAL	122,301	133,752	255,800	131,179

[1] *Fluctuations in training estimates reflect revised estimation methods.*

PIH Programs

HOPE VI: Cumulative performance information since the program's inception (FY 1993) was available for FY 2001. Annual performance information will be available starting in FY 2002. The following table summarizes key performance information stemming from HOPE VI human capital investments as of September 30, 2001:

HOPE VI Service	2001 Enrolled	2001 Completed	Percent Completed
Employment Preparation, Placement, & Retention	9,508	n/a	n/a
Job Skills Training Programs	5,767	3,583	62%
High School Equivalent Education	2,987	1,793	60%
Entrepreneurship Training	897	530	59%
Homeownership Counseling	3,017	1,196	40%

In addition, dating back to the program's inception, more than 13,500 program participants are currently employed, with over 9,000 employed 6 months or more. Entrepreneurship training contributed to the creation of over 200 new businesses, employing more than 300 HOPE VI property residents.

Required Supplementary Information (Unaudited)

Intra-Governmental Balances

Intra-Governmental Balances

HUD's Intra-governmental amounts represent transactions with other federal entities included in the government's annual report. These transactions include assets and liabilities as follows:

September 30, 2001
(Dollars in Millions)

Intra-Governmental Assets:

Agency	Fund Balance	Accounts Receivable	Investments	Other	Total
Department of Treasury	$73,328	–	$23,972	$7	$97,307
Other Agencies	–	$9	–	42	51
Total	$73,328	$9	$23,972	$49	$97,358

Intra-Governmental Liabilities:

Agency	Accounts Payable	Debt	Other	Total
Department of Treasury	–	$9,235	$6,314	$15,549
Other Agencies	–	–	53	53
Total	–	$9,235	$6,367	$15,602

September 30, 2000
(Dollars in Millions)

Intra-Governmental Assets:

Agency	Fund Balance	Accounts Receivable	Investments	Other	Total
Department of Treasury	$70,596	$19	$23,572	$8	$94,195
Other Agencies	25	1	–	41	67
Total	$70,621	$20	$23,572	$49	$94,262

Intra-Governmental Liabilities:

Agency	Accounts Payable	Debt	Other	Total
Department of Treasury	–	$12,421	$5,559	$17,980
Other Agencies	$7	–	29	36
Total	$7	$12,421	$5,588	$18,016

Performance Information

PERFORMANCE OVERVIEW

This third part of HUD's FY 2001 Performance and Accountability Report is the section that focuses on annual performance reporting as required by the Government Performance and Results Act of 1993. Many of the performance results discussed in this section were discussed in the Management Overview. Likewise, a number of the performance indicators discussed in the following pages deal either directly or indirectly with the management challenges identified in the Management Overview. This performance overview summarizes overall progress toward each strategic goal, discusses resource issues that affected performance, and reviews issues of data quality and program evaluation that affect what we know about performance.

This performance overview begins with a summary assessment of overall progress toward each of the Department's strategic goals and objective. The summary is followed by a discussion of resource issues, including budgetary, human capital and information technology resources. The issues of data quality and program evaluation that affect what we know about performance are then summarized.

The final section that follows this performance overview presents HUD's FY 2001 performance indicators in detail. The discussions cover the current status of the measures, results achieved during the performance year, factors affecting results, and strategies being pursued to improve performance.

Overall Progress Toward Achieving Strategic Goals

Goal 1: Increase the availability of decent, safe, and affordable housing in American communities.

Objective 1.1: Homeownership is increased. During FY 2001, HUD made substantial progress toward increasing homeownership. Target levels were exceeded for a number of outcome measures. These included record homeownership rates for the overall population as well as for targeted populations and areas. A sizable majority of performance goals were exceeded. This performance reflects a substantial boost from a reasonably strong, albeit slowing, economy during FY 2001. HUD's activities, including FHA, Ginnie Mae, GSE regulation, and grant programs, played a significant role in increased homeownership rates, especially among underserved populations. Other agencies contributing to the homeownership objective include the Department of Veterans Affairs.

Objective 1.2: Affordable rental housing is available for low-income households. The primary outcome measure for the affordable rental housing objective, worst case needs, cannot yet be reported for FY 2001. Yet, a substantial majority of subsidiary outcome and output goals were achieved. In partnership with housing agencies and grantees, HUD played a major role in achieving this objective. HUD's public and assisted housing programs provided decent and affordable housing for about 5 percent of the Nation's households. The proportion of housing agencies that utilized voucher funds effectively increased. The HOPE VI program continued to substantively change the public housing program, exceeding the goal for two of four production measures. Several measures of outputs by the Block grants, including CDBG, HOME, and Native American Block Grant programs, provided affordable housing for additional hundreds of thousands, although some targets were missed as new data systems improved accuracy of reporting. A number of goals relating to increased availability of multifamily housing were surpassed, including those for FHA mortgage insurance, Ginnie Mae programs and GSE regulation. Other Federal agencies helping to provide affordable rental housing include Treasury, Agriculture, and Defense.

Objective 1.3: America's housing is safe and disaster-resistant. The Department also fulfilled a number of outcome goals under the safe housing objective. HUD surpassed performance goals in a number of important areas. These include substantial improvements to physical conditions and fire safety hazards of public and assisted housing, demolition of obsolete and dangerous public housing, and reductions in the lead paint hazards that are poisoning our Nation's children. Strongly positive results were seen in outcome measures for elevated blood lead and national fire deaths, including long-term reductions in fire deaths within the 7.6 million manufactured housing units for which HUD sets manufacturing standards. The Department of Health and Human Services and the Environmental Protection Agency are among the agencies that helped make housing safer.

Goal 2: Ensure equal opportunity in housing for all Americans.

Objective 2.1: Housing discrimination is reduced. Two central outcome measures for this objective—national discrimination rates and accessibility of multifamily housing—are not yet available but are forthcoming during FY 2002. HUD successfully established a baseline for a new measure of national understanding of fair housing law, and the baseline results were encouraging. A number of goals related to successful enforcement of fair housing laws were exceeded, including the number of enforcement actions completed and backlogs of HUD cases reduced. Results were mixed for HUD's partners, the "substantially equivalent" fair housing enforcement agencies. HUD's progress in reducing housing discrimination is closely supported by the Department of Justice.

Objective 2.2: Low-income people are not isolated geographically in America. The Department's progress toward the second objective is not yet clear, as Census data are not yet available to report the primary outcome measure based on segregation indices. No improvement was observed regarding the movement of voucher recipients to neighborhoods with low poverty rates. HUD is reassessing the validity of measures and strategies in this area.

Objective 2.3: Disparities in homeownership rates among racial and ethnic groups are reduced. HUD's progress toward this objective was generally positive. Disparities in disapproval rates for minority mortgage applications were reduced; FHA exceeded its goal for minority mortgage endorsements; and the GSEs exceeded their goals for special affordable mortgage purchases. A goal for mortgages financed for Native Americans was missed. HUD works toward this objective with the Department of Justice, the Federal Housing Finance Board, the Interagency Task Force on Fair Lending and the Interagency Task Force on Predatory Lending.

Goal 3: Promote self-sufficiency and asset development of families and individuals.

Objective 3.1: Homeless families and individuals become self-sufficient. Although the availability of comprehensive data to measure this objective remains somewhat limited, a majority of performance goals—covering a number of important outcomes and outputs— were exceeded. These include the proportion of homeless persons leaving transitional housing who go to permanent housing, and the proportion of the Nation's population who live in communities with comprehensive "continua of care" partnerships to address the needs of the homeless. Although Empowerment Zones and Enterprise Communities missed their goal for serving homeless persons, their performance improved over last year. Federal agencies who partner with HUD to address homelessness include Health and Human Services, Veterans Affairs and a number of agencies in the Interagency Council on the Homeless.

Objective 3.2: Poor and disadvantaged families and individuals become self-sufficient and develop assets. The Department met with mixed success on this objective, and data problems created a number of limitations in the assessment. The share of public housing households who get their income from earnings increased, exceeding the goal. Welfare households in all three of HUD's major housing assistance programs are making transitions to work at substantially higher rates than they were when TANF was enacted. Yet, based on preliminary data, the rate of families making transitions from welfare to work while in public housing and voucher programs appeared to slow slightly, missing the targets. One measure of national outcomes, employment rates of entry-level job seekers in central cities, improved markedly. Along with the critical role of economic conditions, HUD's success on this objective receives substantial support from the efforts of the Department of Labor and Department of Health and Human Services.

Goal 4: Improve community quality of life and economic vitality.

Objective 4.1: The number, quality, and accessibility of jobs increase in urban and rural communities. The first objective under Goal 4 was to increase the number and quality of jobs in low-income communities. The results were mixed. Several measures of geographic disparities in economic conditions of cities and suburbs were surpassed. The improvement of central city economies during the recent business cycle was a primary factor. Performance fell short of other goals for job creation under the CDBG program and Section 108 economic development loans and by EZs/ECs. The efforts of the Departments of Commerce, Labor, Agriculture and the Small Business Administration contribute to this objective.

Objective 4.2: Disparities in well-being among neighborhoods and within metropolitan areas are reduced. The results for this neighborhood quality of life objective were generally disappointing. A number of measures that rely on external data sources could not be reported this year because data were not yet available. Results were mixed for the various activities of Empowerment Zones and Enterprise Communities, and for the proportion of CDBG funds flowing to low- and moderate-income areas and to low-income populations. FHA programs in underserved areas suffered from market conditions, missing several goals. The Community Outreach Partnership Centers program succeeded in attracting extra match funds to support university partnerships for neighborhood improvements. The GSEs also achieved their goals for mortgage purchases in underserved areas. The Environmental Protection Agency supports HUD's efforts on brownfield issues under this objective.

Objective 4.3: Communities are safe. Results for this objective were generally positive, including in public housing neighborhoods. Public housing grantees who received drug elimination grants reported drops in crime rates and exceeded a substantial, but decreasing, number of their crime reduction goals during FY 2001. Congress has merged HUD's drug elimination activities into the Operating subsidy program in FY 2002. The prior grant program had experienced high unexpended balances. Crime prevention was one of the EZ/EC categories for which performance missed the goal during FY 2001. Crime rates are affected by a number of social and economic factors as well as several HUD programs. The Department of Justice contributes to this strategic objective.

Goal 5: Ensure public trust in HUD.

Objective 5.1: HUD and HUD's partners effectively deliver results to customers. HUD's objective of delivering better results to customers was generally accomplished. Goals were met for performance-based contracting, for receiving a clean audit opinion, for monitoring Consolidated Plan grantees, for reducing untimely expenditure of CDBG funds. Substantial improvements were observed in physical quality of public and assisted multifamily housing, in PHA scores under HUD's management assessment system, and in enforcement activity against troubled multifamily projects. Goals for improvements in data reporting and system certification were achieved and established the foundation for further progress. One weakness was that evolution in REAC protocols prevented reporting data on some public and assisted housing measures that was comparable to previous reports. No other Federal agencies influence results under this internally-focused objective.

Objective 5.2: HUD leads housing and urban research and policy development nationwide. General success was achieved in the area of housing research and policy. Baseline research on two indicators revealed that a substantial majority of users of HUD research rate it as "valuable," and research publications have been extensively cited in the literature. HUD program evaluations completed during FY 2001, or soon thereafter, are related to program-specific performance indicators in the following pages, and are summarized in the appendix. This objective was also supported by international coordination activities related to housing policy, involving a very small amount of budgetary resources. The Department of State assists these international activities, and a number of agencies coordinate on various research activities.

Resource Issues Affecting Performance

Budget

The performance goals reported in this document are those specified in HUD's Revised FY 2001 Annual Performance Plan. The targets that appeared in the revised plan were generally calibrated to reflect the actual FY 2001 appropriations rather than the budget request. One unanticipated exception occurred during FY 2001: the performance of FHA's multifamily mortgage insurance program was limited because it ran out of credit subsidy before the fiscal year ended.

There are a number of important outcomes that HUD's programs affect directly but for which budget resources are limited relative to the degree of need. The extent of worst case needs for affordable rental housing and the number of units made lead-safe are prime examples.

Human Capital

Human resource issues, which GAO has identified as a government-wide high-risk area, remain a challenge for HUD. The Department has made progress in assessing staffing allocations under the Resource Estimation and Allocation Program. Staffing is a factor in effective monitoring of HUD programs, as well as in the timely investigation and resolution of fair housing complaints.

To create greater efficiencies, the Department has initiated realignment efforts within Headquarters and in the field. The Headquarters realignment will improve oversight of day-to-day operations by significantly reducing the number of reporting layers and strengthening the role of the Department's Assistant Secretaries.

Under HUD's old organizational structure, there were in excess of 35 direct reporting relationships to the Office of the Secretary. HUD's new organizational structure significantly reduces the number of reporting layers (to approximately 20), narrows the Secretary's span of control, and provides for increased program oversight and performance accountability. The new Headquarters structure provides for Departmental Assistant Secretaries and the General Counsel to administer all functions and services of the Departmental Enforcement Center, the Real Estate Assessment Center, Departmental Equal Employment Opportunity, and the Office of the Chief Information Officer.

The Department has adopted and successfully implemented the Resource Estimation and Allocation Program; provided a comprehensive staffing plan that matches staffing requirements with programmatic responsibilities; started succession planning to address anticipated loss of seasoned employees through development of a Departmental Intern Program and other measures; set a high standard of excellence and performance accountability for senior executives, managers and supervisors through our Performance Appraisal and Incentive Process.

Other challenges remain, including rebuilding an aging workforce where over 40 percent of employees are retirement eligible, reducing the number of GS-14 and GS-15 positions, lowering the average salary cost per employee, implementing a consistent Department-wide "telecommuting" program that promotes accountability, ensuring adequate staff resources are available to address HUD's core programmatic requirements, and refocusing and intensifying recruitment efforts and developing intern programs.

In a number of cases, human capital strategies are discussed in connection with individual performance measures, although the human capital plan will outline more specific approaches.

Information Technology

In recent years, HUD has grown into a leader among Federal agencies in applying strategic decision-making tools to the process of selecting and funding information technology projects. Historical limitations in capital funding have contributed to problems with performance data and long-term management challenges discussed in previous sections. The substantial cost of maintaining legacy systems has limited resources for developing enterprise-wide solutions with lower life-cycle costs and greater functionality. However in recent years, the Department has received increased funding for its Working Capital Fund—from $265 million in FY 2000 to $351 million in FY 2002—which will allow further investment in performance related data systems.

HUD has included several performance indicators in recent APPs that deal with data quality, information security, and performance of systems and system development projects. In a number of cases, information technology strategies are discussed in connection with individual performance measures.

Reliability of Performance Data

The Department has made substantial advances in improving the completeness, accuracy and reliability of performance data. As a result, the reader can generally rely on the data reported here to assess the Department's achievements. An important part of data reliability is the extent to which limitations are disclosed. HUD has made substantial efforts to reveal limitations of completeness and accuracy in this report. Additional information about data limitations, validation and verification is presented in HUD's Annual Performance Plans—in many cases, with greater detail each year. Nevertheless, as the summary of results discussed above suggests, data limitations, including lack of availability, continue to prevent comprehensive understanding of HUD's achievements for every program.

HUD can assess outcomes of a number of programs only in limited ways because of statutory provisions, potential reporting burdens and privacy concerns. The Community Development Block Grant program is a prime example. CDBG allows grantee discretion to conduct a broad variety of activities, and there is a necessary balance between assessing their impacts on final customers and creating reporting burdens for our partners. In such cases, the Department is consulting with partners and conducting research on ways to use available data more effectively, including data from external sources such as the Bureau of Census. In other cases, performance measures that use survey techniques are being developed. Some of these survey results are reported this year, and others are forthcoming.

External data also come with availability problems because the cost of data collection keeps survey-based data from being produced on an annual basis for the small areas or populations of interest to HUD. Timeliness is also a weakness of external data sources. This Performance and Accountability Report and the FY 2003 APP reflect the Department's continuing attempts to help the reader assess data reliability with greater confidence, including efforts to report statistical confidence intervals for measures that rely on sampling.

Data completeness is a problem for several program data systems. Household data submitted by public housing agencies were incomplete during FY 2001 because of a transition to a new information system. Although the Department has tried to use available data to its fullest effect, incomplete data creates the potential for bias in the reported results. Therefore, incomplete and preliminary data are identified, often with extensive footnotes (for example, for measures of welfare-to-work transitions in public housing).

Use of Evaluations to Improve Strategies

Performance indicators face inherent limitations because they often cannot address the issue of attribution. That is, performance measures can show results but may not be well-suited for showing that the program rather than external factors caused the results. Generally, the most that can be done with performance measures is to plausibly attribute the outcome to the program by demonstrating a logical connection.

To address the attribution problem, the Department also relies on program evaluations. Evaluations are studies that assess program impacts by using control groups, random assignment, econometric modeling and other methodologies to exclude the effects of external forces. HUD's ability to evaluate its programs is somewhat limited by budget resources. Research and evaluation is funded at a fraction of a percent of the Departmental budget, compared with proportions that frequently are greater at other agencies. Yet, the Department attempts to use evaluation resources effectively to learn about how programs work or fail to work.

Evaluation results are used to improve the Department's strategies, programs and policies. For example, a major experimental evaluation conducted in the 1970s was used to develop the Section 8 tenant-based program, a major innovation compared to previous "bricks and mortar" approaches to affordable housing. As a result, the Housing Choice Voucher program now relies on the private market to house more families than public housing does. In a similar way, current program evaluations are used both to attribute results and to improve program strategies and operations. The recently completed "quality control" study of rent determination errors in HUD's housing programs has led the Department to undertake the Rental Housing Integrity Improvement Project to reduce the impact of rent errors and fraud on the Federal budget.

Indicators on the following pages are supplemented, when appropriate, with a discussion of relevant program evaluations that were completed during FY 2001 or soon thereafter. In some cases, the program evaluations are direct studies of the programs in question, and in other cases the discussions cover research that affects the performance measure. An appendix to this report systematically summarizes FY 2001 research efforts and findings.

Discussion of Performance Indicators

The performance indicators that follow were for the most part published in the Final FY 2001 APP that was submitted to Congress in March, 2000. A number of indicators or performance goals were subsequently modified in the Revised FY 2001 Annual Performance Plan that was transmitted to OMB in January 2001. The revised APP reflected the appropriations provided by Congress in HUD's FY 2001 budget, and the indicators reflect the Revised APP where it applies.

For each indicator, a background discussion is provided to explain the program being assessed, the measure used, the time period being reported, and the status of the indicator in the FY 2002 APP and the FY 2003 APP.

Results are provided for the majority of indicators. To prevent needless repetition, indicators that rely on data that are available only at intervals of two years or longer (as often occurs for those relying on the American Housing Survey) are not reported. The FY 2000 Performance and Accountability Report contains the most recent data available for these indicators.

As results are presented, a statement is included to indicate whether or not the performance goal was achieved. An analysis is also provided dealing to attribute results to programs and to external factors as appropriate and feasible. The Department is seeking to enhance such analysis in future performance reports.

In instances when the Department failed to achieve a performance goal, strategies to improve results are presented, including human capital and information technology strategies. Although similar strategies may be in place for programs that successfully achieved their goals, they are not presented here because documenting all such initiatives affecting every performance goal would require substantially increased efforts.

Finally, as discussed above, some indicators are supplemented with additional information about recent program evaluations and their use to improve strategies.

Strategic Goal 1: Increase the Availability of Decent, Safe, and Affordable Housing in American Communities

Strategic Objectives:

1.1 Homeownership is increased.

1.2 Affordable rental housing is available for low-income households.

1.3 America's housing is safe and disaster resistant.

Objective 1.1: Homeownership is increased.

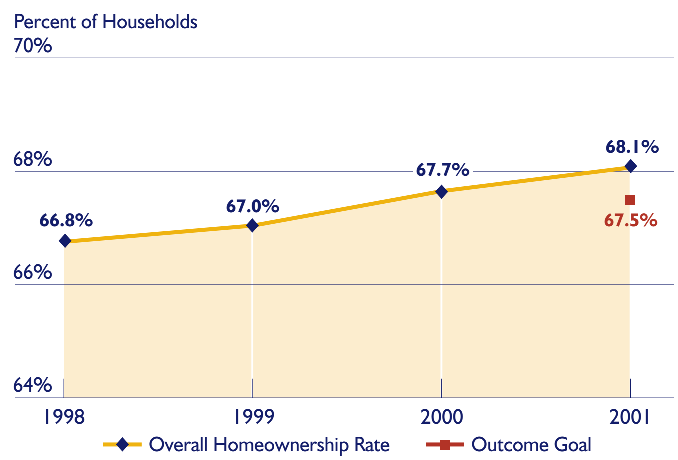
Outcome Indicator 1.1.1:
The overall homeownership rate increases from 67.0 percent in 1999 to 67.5 percent in 2001.

Background. The overall homeownership rate indicates the share of the Nation's households that have achieved the "American dream" of homeownership. Homeownership is widely believed to encourage commitment to communities and good citizenship. The homeownership rate has reached record levels in recent years, but is resistant to increases above an undetermined level because homeownership is not practical or desirable for all households. This measure is based on averages of monthly Current Population Survey data for the third quarter (the last quarter of the fiscal year). In the FY 2003 APP, this indicator was converted to a tracking indicator with no numeric goal, reflecting the substantial impact of recent economic uncertainties relative to HUD's span of control.

Results and Analysis. During the third quarter of calendar year 2001, the homeownership rate continued a trend of growth to reach a record 68.1 percent. The performance surpassed HUD's performance goal of 67.5 percent by a statistically significant margin.

An estimated 1.1 million households became homeowners during FY 2001, actually exceeding the estimated 1.05 million households that formed. An average of 1 million new households were formed each year during the 1990s.[1]

Overall Homeownership Rate



[1] *HUD Office of Policy Development and Research.* U.S. Housing Market Conditions, *Tables 21 and 24. Fall 2001. Available at* ***www.huduser.org***.

The strength of the national economy in recent years has increased incomes and allowed many households to accumulate enough assets to become homeowners. The real median income of all households increased by 15 percent between 1993 and 2000, from $36,746 to $42,148 (in constant 2000 dollars). Non-family households experienced similar income growth, as their median income also grew by 15 percent during this period, from $22,207 to $25,391.[2] One result is that homeownership rates of single heads of households have increased from 48.5 percent in 1993 to 51.6 percent in 1999. Single heads of households with children had a lower homeownership rate in 1999, 44.2 percent, than did singles without children, 53.7 percent.[3]

During FY 2001, market interest rates for 30-year mortgages averaged about 7.2 percent, compared with an average of 7.9 percent over the past decade. Lower interest rates make mortgage payments more affordable-in this case by about $50 per month (or $600 per year) per $100,000 of outstanding mortgage debt.

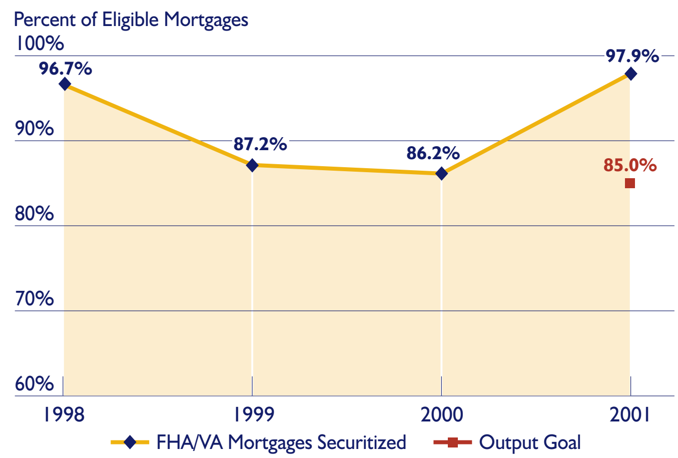
Higher incomes and lower mortgage payments combine to increase the buying power of U.S. households. These economic factors worked together with FHA single-family mortgage insurance programs during FY 2001 to increase homeownership rates (see indicator 1.1.e). FHA mortgage insurance helps families who have little cash become homeowners because it has low downpayment requirements, liberal income qualification guidelines and flexible credit standards. The majority of FHA endorsements for home purchases benefit first-time homebuyers (1.1.f). Communities have also used CDBG and HOME block grants and SHOP competitive grants to promote homeownership (1.2.d).

Programmatic Output Indicator 1.1.a:
Ginnie Mae securitizes at least 85 percent of single-family FHA and VA loans.

Background. Ginnie Mae helps to keep mortgage rates lower and to make more mortgages available by attracting funds from the Nation's capital markets into residential mortgage markets. Ginnie Mae's principal products are mortgage backed securities (MBS), created when mortgage loans are pooled by eligible issuers. The liquidity provided through Ginnie Mae activity helps assure the success of the mortgage insurance programs of FHA and the U.S. Department of Veteran's Affairs. This measure is based on Ginnie Mae's database of FHA and VA loans.

Results and Analysis. In FY 2001, Ginnie Mae securitized 97.9 percent of single-family FHA and VA loans, surpassing the target of 85 percent by a wide margin. This represents an increase of almost 12 percentage points from the FY 2000 level of 86.2 percent. The Ginnie Mae share of FHA and VA loans is subject to fluctuation resulting from competition by the Government Sponsored Enterprises, as well as Federal Home Loan Banks. In certain years the GSEs may seek to securitize a portion of FHA and VA portfolios in order to satisfy the public purpose goals that HUD establishes.

FHA/VA Single-Family Mortgages Securitized by Ginnie Mae



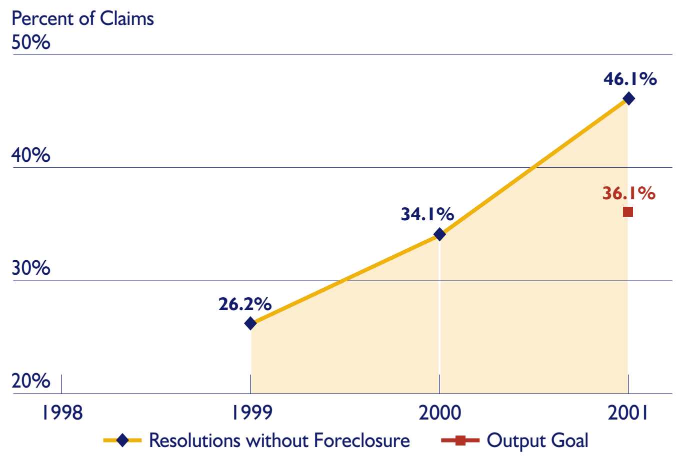
[2] *U.S. Census Bureau, Current Population Reports, P60-213.* Money Income in the United States: 2000, *Table A. September 2001.*

[3] *HUD Office of Policy Development and Research.* U.S. Housing Market Conditions. *Winter 2001.*

Programmatic Output Indicator 1.1.b:
The share of FHA mortgage defaults resolved by loss mitigation alternatives to foreclosure increases by 2 percentage points to 30 percent.

Background. FHA loan servicers are statutorily required to employ loss-mitigation techniques to try to avoid foreclosure claims on FHA insurance when borrowers default on insured mortgages. A borrower can resolve a default (90-day delinquency) in several ways short of foreclosure: by paying down the delinquency (cure), by a preforeclosure sale with FHA perhaps paying an insurance claim in the amount of the shortfall, or by surrendering a deed in lieu of foreclosure, among others. Better loss-mitigation efforts, such as enhanced borrower counseling, help borrowers keep their current homes or permit them to buy another home sooner. Avoidance of foreclosure also reduces FHA's insurance losses, making FHA financially sounder and enabling it to help more borrowers. For both reasons, greater use of loss mitigation helps increase the overall homeownership rate. Data used for this measure come from FHA's A43-C data system, and are verified by FHA staff using quality assurance sampling methods. In FY 2002 and 2003, the target for this indicator was raised to 40 percent.

FHA Single-Family Mortgage Claims Resolved without Foreclosure



Results and Analysis. The proportion of total claims on FHA insurance that represent loss mitigation rather than foreclosure increased substantially from 34.1 percent in FY 2000 to 46.1 percent in FY 2001. The increase of 12 percentage points exceeded the goal of a 2 percentage point gain by a factor of six.

Increased use of housing counseling for borrowers is a likely contributor to the high rate of loss mitigation tools used in FY 2001. The Department also took actions to ensure that loss mitigation was a major component of industry meetings held on regulations to motivate lenders to follow FHA's loss mitigation requirements. As a result of these steps, the use of loss mitigation tools has more than doubled in the past few years. In FY 1999, 24,874 cases were resolved with loss mitigation. There were 35,426 such cases in FY 2000 and 53,732 cases in FY 2001. FHA will continue to encourage lenders to use loss mitigation alternatives to foreclosure.

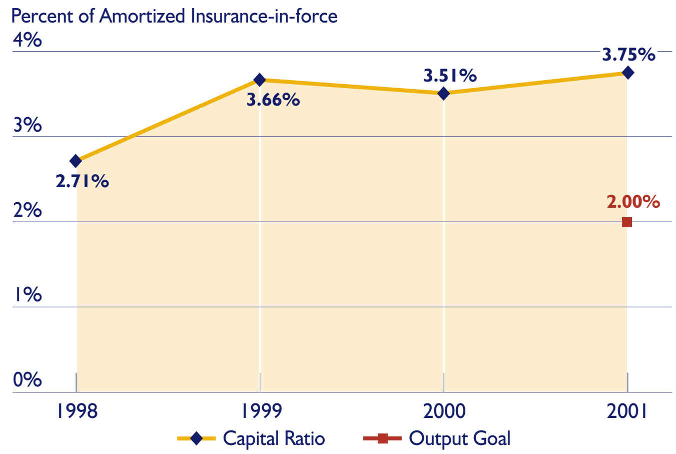
Programmatic Output Indicator 1.1.c:
The FHA Mutual Mortgage Insurance Fund meets congressionally mandated capital reserve targets.

Background. FHA's Mutual Mortgage Insurance Fund (MMIF) funds all expenses, including insurance claims, incurred under FHA's basic single-family mortgage insurance program. The insurance program and fund are expected to be entirely self-financing from up-front and annual insurance premiums paid by borrowers obtaining FHA mortgage loans as well as from earnings on fund assets. Because the Department is expected to operate the program in an actuarially sound way, the fund is subject to an annual actuarial review. The review assesses the fund's current economic value, its capital ratio, and its ability to provide homeownership opportunities while remaining self-sustaining based on current and expected future cash flows.

The capital ratio is an important indicator of the MMIF's financial soundness and of its continuing ability to make homeownership affordable to more renters when economic downturns increase insurance claims. The capital ratio is defined as the sum of FHA's capital resources plus the net present value of expected future cash flows (resulting from premium collections, asset earnings, and insurance claim losses) divided by the unamortized insurance-in-force. This measure is based on the current capital ratio determined by the independent actuarial review discussed above.

Results and Analysis. The capital ratio of the Mutual Mortgage Insurance Fund was 3.75 percent at the end of FY 2001, compared with 3.51 percent at the end of FY 2000. This exceeded the congressionally mandated goal of 2.0 percent, as it has since FY 1995.

Capital Ratio for FHA Mutual Mortgage Insurance Fund



Programmatic Output Indicator 1.1.d:
The net recovery of FHA real estate owned sales increases by 1 percentage point to 63.7 percent.

Background. When defaulted FHA loans go to foreclosure and insurance claim, HUD acquires the property, which then becomes known as real estate owned (REO). Increasing the net recoveries on sales of REO will reduce FHA's insurance claim losses and strengthen the financial position of the FHA insurance funds. The net recovery is a ratio defined as one minus the sales price net of expenses and acquisition cost, divided by the acquisition cost. Data are from FHA's A43-C and A80S data systems, and are verified by FHA staff using quality assurance sampling methods.

Results and Analysis. During FY 2001, FHA achieved a net recovery of real estate owned sales of 65.5 percent, which is 4 percentage points higher than the FY 2000 level, and exceeds HUD's target of a 1 percentage point gain. The FY 2001 goal was surpassed as a result of improved Management and Marketing contractor performance. The Department is implementing a risk-based targeting project to support more strategic monitoring of REO properties.

Outcome Indicator 1.1.2:
The share of all homebuyers who are first-time homebuyers increases by 0.5 percentage point to 48.3 percent.

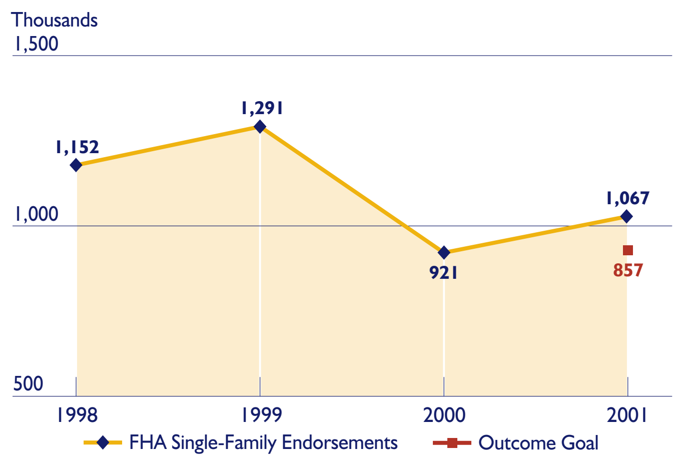
Background. Increasing the proportion of homebuyers who are purchasing a home for the first time is a key to higher homeownership rates. As discussed in the FY 2000 performance report, the Chicago Title data formerly used for this measure were not collected in 2000. As a result, the measure is being converted to American Housing Survey data, which are available biennially. FY 2001 data will be available to report next year. The FY 2003 APP also establishes this measure as a tracking indicator with no numeric target. This change reflects the dominant impact of the macro-economy compared with HUD's limited span of control over the outcome.

Programmatic Output Indicator 1.1.e:
FHA will endorse 857,000 single-family mortgage loans in FY 2001.

Background. FHA insures mortgages issued by private lenders, increasing access to mortgage capital so homeownership opportunities increase. FHA mortgage insurance helps families who have little cash become homeowners because it has low downpayment requirements, liberal income qualification guidelines and flexible credit standards. This indicator tracks FHA's contribution to the homeownership rate through the annual number of FHA-insured loans. Data are from FHA's A43 data system and are monitored by FHA staff using quality assurance sampling methods. Because this measure is primarily driven by market conditions, the FY 2002 Annual Performance Plan has changing it to a tracking indicator with no performance target.

Results and Analysis. During FY 2001, the number of FHA's single-family mortgage endorsements increased by nearly 16 percent to 1.067 million. The result exceeded the FY 2001 performance goal of 857,000.

FHA Single-Family Mortgage Endorsements

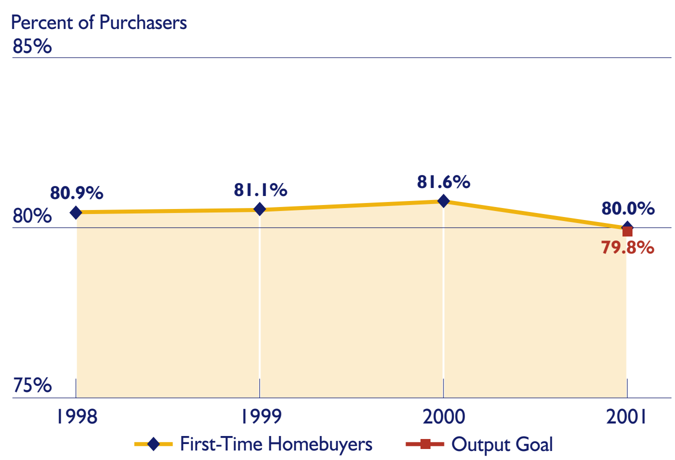


The volume did not match the peak levels of activity recorded in FY 1999. Changes in household incomes and interest rates affect the demand for home purchase mortgages or refinanced mortgages, both of which count in this measure. Because FHA mortgage limits increase annually as home prices increase, more families are enabled to become homeowners than would otherwise be possible. FHA's efforts to keep the Mutual Mortgage Insurance Fund in sound financial condition (see Indicators 1.1.b, 1.1.c, and 1.1.f) also are critical to sustaining large numbers of new endorsements through diverse economic conditions.

Programmatic Output Indicator 1.1.f:
The share of FHA-insured home-purchase mortgages for first-time homebuyers remains at least 80 percent.

Background. FHA is a major source of mortgage financing for first-time buyers as well as for minority and lower income buyers. HUD will help increase the overall homeownership rate and reduce the homeownership gap between whites and minorities by increasing FHA endorsements for first-time homebuyers. This indicator tracks the share of first-time homebuyers among FHA endorsements for home purchases-thus excluding refinance mortgages. FHA data are entered into FHA's A43 data system by direct-endorsement lenders with monitoring by FHA.

Percent of FHA Home Purchase Endorsements for First-Time Homebuyers



Results and Analysis. During FY 2001, 79.8 percent of FHA endorsements for home purchase mortgages were for first-time homebuyers. The result is virtually equal to the 80 percent goal. FHA endorsed 643,748 loans to first time homebuyers during FY 2001. This performance continues FHA's strong support of first time homebuyers. American Housing Survey data show that during the 1990s, FHA-insured loans comprised 14 percent of all home purchases, and 25 percent of purchases by first-time homebuyers. The same data show that "FHA's share of the first-time homebuyer market increased during the late 1990s, rising from an average of 23 percent in 1991-96 to 30 percent in 1997-99."[4]

During FY 2001, the Department increased staff resources and efforts for appropriately targeted marketing. Activities such as homeownership fairs provided a non-threatening venue where renters with short-term or long-term homebuying potential could gain understanding of the prerequisites, benefits and responsibilities of homeownership.

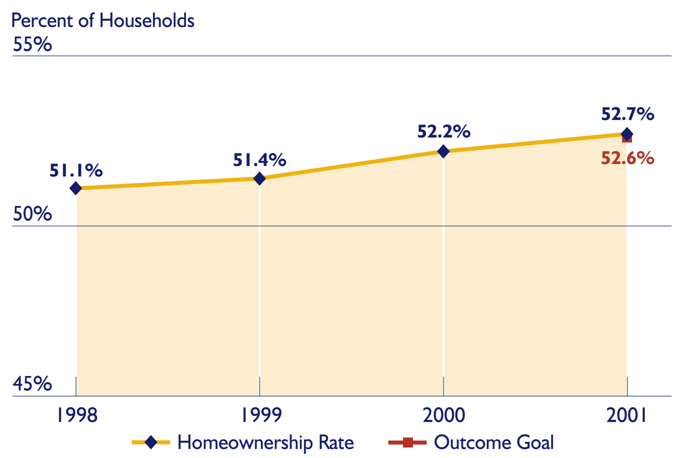
HUD is continuing to work with lenders in addressing the needs of the first-time homebuyer. The Department also is providing homeownership vouchers and supporting the use of CDBG and HOME block grants for homeownership activities. These programs interact with FHA single-family programs.

Outcome Indicator 1.1.3:
The homeownership rate among households with incomes less than median family income increases by 0.5 percentage point to 52.3 percent.

Background. Homeownership is advantageous because of its contributions to asset development, better neighborhoods and schools, stability of tenure, and wider choice of housing types. Holding other factors equal, homeownership improves outcomes for children on a number of dimensions, including school achievement and dropout rates. This indicator tracks national progress in increasing homeownership among households with incomes below the national median family income. The measure uses Current Population Survey data from the third quarter of the calendar year, corresponding to the end of HUD's fiscal year. In the FY 2003 APP, this measure has been converted to a tracking indicator with no numeric target, reflecting the current dominant impact of the macro-economy.

Results and Analysis. In 2001, the homeownership rate among households with incomes below the national median increased by 0.4 percentage points to 52.6 percent. The results were slightly below the goal of 52.7 percent, but the difference is not statistically significant.

Homeownership Rate for Households with Income Less than Median Family Income



Recent significant gains in homeownership among families with incomes below the national median correspond to real gains in median, or 50th percentile, incomes. The 1.1 percentage point gain in homeownership between 1998 and 2000 is associated with a 2.7 percent increase in real median income, from $41,032 in 1998 to $42,148 in 2000 (constant 2000 dollars).[5] Households with incomes between the 20th and 40th percentile also experienced real income growth of 3 percent, as the mean income for the group climbed from $23,644 in 1998 to $25,331 in 2000 (constant 2000 dollars).

[4] *HUD Office of Policy Development and Research.* U.S. Housing Market Conditions. *Fall 2001. Available at* ***www.huduser.org***. *The report notes that the American Housing Survey data include home purchases not financed with new mortgages, and that FHA market share would be higher if only home purchases that had mortgages were included.*

[5] *U.S. Census Bureau, Current Population Reports, P60-213.* Money Income in the United States: 2000, *Table C. September 2001.*

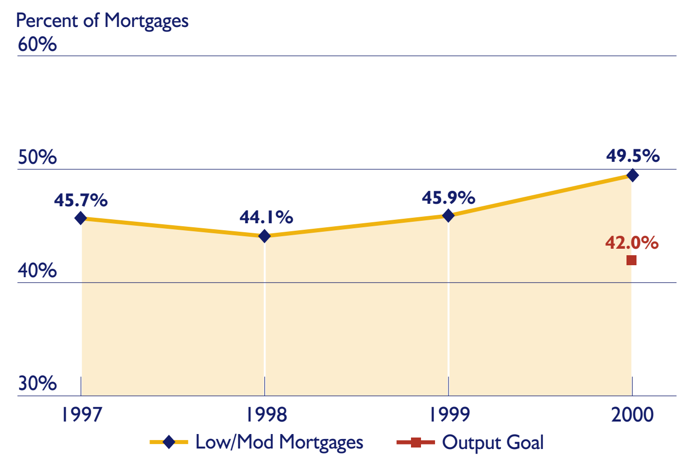
Other economic factors such as interest rates (discussed under Indicator 1.1.1) play a similarly important role for this measure. A modest change in interest rates makes a more substantial difference in housing affordability for families whose incomes are lower. Moreover, an increase in mortgage interest payments because of higher interest rates has a greater after-tax effect on low-income families. Their interest payments do not receive the equivalent compensation through income tax deductions because their marginal tax rate is lower.

HUD will continue to promote higher homeownership rates among low-income households through improved partnering, marketing, and outreach in the single-family FHA programs. HUD's block grant programs, CDBG and HOME, also provide homeownership assistance of various types, depending on local needs and preferences. Both of these programs are targeted primarily to groups with incomes below median.

Programmatic Output Indicator 1.1.g:
Fannie Mae and Freddie Mac meet or surpass HUD-defined targets for low- and moderate-income mortgage purchases.

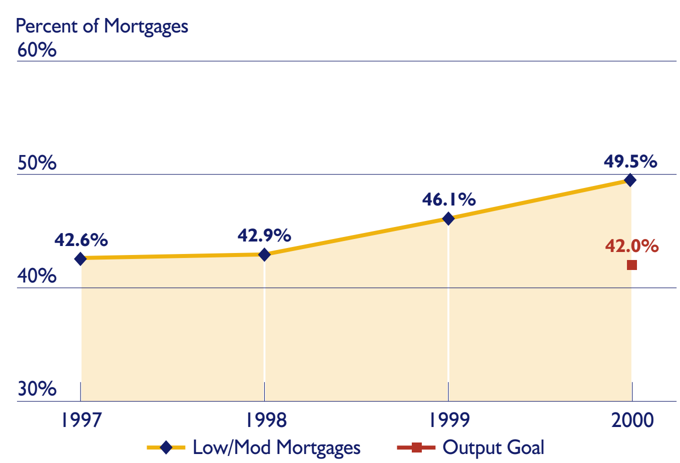
Background. As Government-Sponsored Enterprises (GSEs), Fannie Mae and Freddie Mac are expected to achieve a number of public interest goals, one of which is to expand homeownership opportunities for persons of low- and moderate income. This measure tracks the share of mortgage purchases securitized by the GSEs that serve low- and moderate-income families, defined as families with incomes below area medians, and including both single-family and multifamily mortgages. The data reported for this indicator are based on calendar years, and have a one-year lag because they come from audit reports. In 2000, the target for low- and moderate-income mortgage purchases was 42.0 percent. Beginning in calendar year 2001, the target has been increased to 50.0 percent.

Fannie Mae Performance Relative to Low/Mod Target



Results and Analysis. In calendar year 2000, Fannie Mae and Freddie Mac both surpassed HUD's target of 42 percent. Fannie Mae achieved 49.5 percent, while Freddie Mac achieved 49.9 percent.

Freddie Mac Performance Relative to Low/Mod Target



Both GSEs were already close to the 2001 target levels in 2000, achieving the highest performance levels in any year of the 1996-2000 period. For Fannie Mae, the performance improvement during 2000 resulted from increases in low- and moderate-income share of both single-family and multifamily portfolios. For Freddie Mac, the gain was primarily in the low- and moderate-income share of the single-family portfolio. Both GSEs achieve the bulk of their low- and moderate-income goals through loans on single-family owner-occupied housing, even though such loans are less likely to qualify for the housing goals. Refinanced mortgages make up a substantial share of annual volume.

Programmatic Output Indicator 1.1.h:
The number of homeowners who have been assisted with HOME is maximized (see table under 1.2.d).

Background. The HOME Investment Partnerships Program gives States and local communities flexibility to meet their housing needs in a variety of ways. Many participating jurisdictions choose to use their funds to rehabilitate existing owner-occupied units and to help low- and moderate-income families to purchase their homes. In this way, the HOME program contributes to the Presidential initiative to expand homeownership opportunities for under-served groups. Data entered by participating jurisdictions in HUD's Integrated Disbursement and Information System (IDIS) are used to track quarterly performance. Ongoing HUD-sponsored IDIS training and data clean-up efforts are used to consistently improve data quality and reliability.

Results and Analysis. During FY 2001, participating jurisdictions committed funds to 12,566 existing homeowner rehabilitation units and 29,690 new homebuyer units, for a total of 42,256 units. These accomplishments represent a leveling of the annual HOME homeownership assistance rate, and are slightly less than the goals of 15,090 homeowner rehabilitation units and 33,199 homebuyer units projected in Table 1.2.d for FY 2001. The per-unit HOME cost of producing a homeowner rehabilitation unit or homebuyer unit also increased during the fiscal year. A major IDIS data clean-up effort eliminated duplicate and inaccurately reported units, and may have contributed to the apparent reduction in accomplishments.

During FY 2001, HUD continued to provide training and technical assistance, including web-based assistance, to participating jurisdictions to improve their HOME program performance. Participating jurisdictions committed $222,000,000 to existing homeowner rehabilitation units and $364,000,000 to new homebuyer units during FY 2001.

The accomplishment of this output indicator is affected by several external factors: the level of annual HOME appropriations, the choices that participating jurisdictions make among their competing housing needs and economic conditions affecting the cost of housing. HUD will continue to develop training, technical assistance and web-based products that will enable participating jurisdictions to maximize their performance. A model guide for financing homebuyer housing is in development. HUD is also undertaking a study of homebuyer housing to identify the most effective approaches.

1.1.h.2: The number of homeowners who have used sweat equity to earn assistance with Self Help Opportunities Program (SHOP) funding increases (see table under 1.2.d).

Background. This indicator tracks the number of housing units completed by national and regional nonprofit organizations and consortia receiving SHOP funds during the FY 2001 program year. The program goal is targeted to the number of units completed by grantees during the program period and is not tied to a specific year's SHOP grant. SHOP funds are limited to $10,000 per unit for eligible expenses-land acquisition, infrastructure improvements, and administrative costs. Prospective homeowners perform construction-related work with volunteers. Data reported to HUD by each grantee are used to track quarterly performance. Future annual performance reports will continue to track the number of completed SHOP units.

Results and Analysis. During FY 2001, SHOP grantees completed 1,655 housing units. Grantees exceeded the program goal of 1,400 completed units by 18 percent. Another 3,407 SHOP units were under development at the close of the fiscal year.

During FY 2001, HUD continued to provide technical assistance upon request to SHOP grantees. This may be attributed to the nature of the SHOP program. Grantees pass funds through to local affiliates and work is performed by volunteers with various skill levels, causing delays in program implementation.

HUD's Office of Assisted Housing Programs is currently developing new uniform reporting procedures. A new uniform reporting format will ensure consistent and accurate reporting of SHOP accomplishments by grantees and affiliates. The use of standardized definitions for "units completed" and "under development" in future reports may result in changes to currently reported accomplishments.

The accomplishment of this output indicator is affected by several external factors: the level of SHOP appropriations, the "pass-through" nature of program funds to local affiliates, the level of sophistication of local SHOP organizations in developing and managing self-help housing, and the varying skill levels of the homebuyers and volunteers who use the funds.

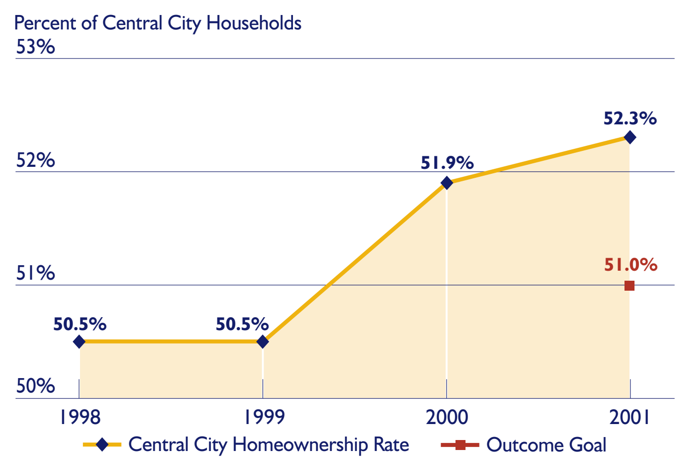
Outcome Indicator 1.1.4:
The homeownership rate in central cities increases to 51 percent.

Background. Central cities have below-average rates of homeownership, in part because of higher density development and multifamily housing, but also because of losses of middle-class families in past decades. Low homeownership can contribute to neighborhood decline because absentee landlords and their tenants put forth less maintenance effort than homeowners. In such cases, low homeownership often leads to a shrinking municipal tax base. This indicator tracks the progress in reestablishing central cities as desirable places for long-term individual investment. The data used to report this measure are averages of monthly data from the Current Population Survey for the third quarter of the calendar year (corresponding to the fiscal year end). In the FY 2003 APP, this measure has been converted to a tracking indicator with no numeric target, reflecting the dominant impact of the macro-economy relative to HUD's span of control.

Results and Analysis. In the third quarter of 2001, the homeownership rate in central cities increased to 52.3 percent, up from 51.9 percent a year earlier. The performance substantially exceeded the 51.0 percent target established on the basis of 1999 results.

A number of HUD's programs contribute to homeownership in central cities. CDBG and HOME block grants are among the largest programs, and each has a sizable homeownership component. Over one-third of households receiving HOME assistance receive homebuyer assistance, or roughly 30,000 homebuyers annually.

Central City Homeownership Rate



HUD is increasing marketing and outreach efforts to promote central city homeownership, including targeted sales of HUD-owned properties. The Department's geographically-targeted goals for the housing GSEs include central city criteria to help ensure that mortgage capital is available. Cities also are making efforts to increase homeownership rates, as grantees increasingly use HOME funds to promote homeownership.

Programmatic Output Indicator 1.1.i:
Fannie Mae and Freddie Mac meet or surpass HUD-defined targets for special affordable mortgage purchases.

Background. This indicator is included under this objective because of its influence on the overall homeownership rate. It is discussed in more detail under Indicator 2.3.c, where it supports minority homeownership.

Results and analysis. In calendar year 2000, Fannie Mae and Freddie Mac both surpassed HUD's target of 18.0 percent.[6] Fannie Mae achieved 19.2 percent, while Freddie Mac achieved 20.7 percent.

Programmatic Output Indicator 1.1.j:
The share of minority homebuyers among FHA home purchase endorsements increases by 1 percentage point to 39 percent.

Background. This indicator is included under this objective because of its influence on the overall homeownership rate. It is discussed in more detail under Indicator 2.3.a where it supports minority homeownership.

Results and Analysis. In FY 2001, minority homebuyers accounted for 36.5 percent of FHA home purchase endorsements.

Programmatic Output Indicator 1.1.k:
At least 90 percent of EZs and ECs achieve local goals in promoting homeownership by residents.

Background. HUD has designated 89 Empowerment Zones (EZs) and Enterprise Communities (ECs). HUD measures their performance in seven areas including residents receiving homeownership assistance. Data represent the sum of outputs taken from plans that are 95 percent completed divided by the sum of projected outputs for all plans. A more detailed discussion of this measure is included under Indicator 4.2.b.5.

Results and Analysis. In FY 2001, 87 percent of EZ and EC projects met goals with respect to residents that receive homeownership assistance. This level misses the target of 90 percent, but surpasses the previous year's level of 81 percent.

[6] *The interim goal of 18 percent for 2000 was reduced to the 1999 level of 14 percent in the final rule.*

Programmatic Output Indicator 1.1.L:
PATH increases to 150 the number of identified technologies for PATH's emerging technologies inventory.

Background. The Partnership for Advancing Technology in Housing (PATH), launched in 1998, is a partnership between Federal agencies and private industry that is developing and accelerating the diffusion of technology in the housing industry. The housing industry tends to adopt new technologies slowly because of liability issues, building codes, market fragmentation and lack of consumer awareness. PATH partners are working to identify key housing technologies that could support dramatic improvements in the areas of quality and durability, energy efficiency, environmental performance, safety and disaster mitigation, and affordability. Efforts to disseminate the technologies and increase their acceptance will increase over the coming ten years. This indicator tracks the number of "emerging" technologies identified by PATH, as recorded in technology inventory index files on PATH's website. Emerging technologies are defined as those with market share below 5 percent. This indicator was a replacement developed for the Revised FY 2001 APP in order to track the PATH Strategy and Operating Plan more closely and to measure the expected impact of the PATH program more accurately.

Results and Analysis. During FY 2001, PATH exceeded the goal of 150 new technologies, identifying over 160 emerging technologies for the industry. The emerging technologies are identified at ***www.toolbase.org***. Each PATH Technology has at least one and usually several of the attributes that contribute to achieving PATH goals: affordability, energy efficiency, quality or durability, environmental performance, and safety of occupants or construction crews or disaster mitigation. The highest priority items will proceed through an evaluation process.

Related Program Evaluations. HUD is conducting research to develop a better understanding of the process of technological diffusion in the housing industry. The research, which is expected to be completed during 2002, will help PATH develop strategies to accelerate the adoption of cost-effective housing technologies.

Programmatic Output Indicator 1.1.m:
PATH issues 12 housing technology research contracts.

Background. Institutional and market barriers that slow adoption of housing technologies reduce incentives for the housing industry to invest in basic and applied research and development. The Partnership for Advancing Technology in Housing is counteracting this tendency by investing in targeted research of promising housing technologies, including basic research related to PATH-identified emerging technologies (see Indicator 1.1.L). PATH-sponsored research and dissemination is expected to have substantial impacts on housing costs, energy efficiency, durability, and production safety over the ten-year time frame of PATH's strategy. This milestone indicator was a replacement developed for the Revised FY 2001 APP in order to track the PATH Strategy and Operating Plan more closely and to measure the expected impact of the PATH program more accurately.

Results and Analysis. During FY 2001, PATH exceeded the goal of issuing 12 research contracts by awarding 11 university-based applied research projects, 16 technology development projects, and 6 technology policy or planning research projects last year. In each case, the projects received enough support from diverse sources that HUD was able to leverage funds from other sources. The projects cover issues such as advanced building materials and systems, performance of these systems, construction techniques and quality controls.

Objective 1.2: Affordable rental housing is available for low-income households.

Outcome Indicator 1.2.1:
The number of households with worst case housing needs decreases by 3 percent by 2001 among families with children and elderly households.

Background. Households with worst case housing needs-unassisted very-low-income renters who pay more than half of their income for housing or live in severely substandard housing-are those with the most severe needs for housing assistance. Although the Department has little influence over the number of households with very low incomes, HUD's public housing, Section 8 and community development programs provide them with access to housing they can afford. This indicator relies upon data from the 2001 American Housing Survey, which will be completed in time to report in the FY 2002 Performance and Accountability Report. The indicator was modified in the FY 2002 APP to include persons with disabilities.

Outcome Indicator 1.2.2:
The share of very-low-income renter households with worst case housing needs declines by at least 1 percentage point in at least five States between 1990 and 2000.

Background. This indicator relies upon data from the 2000 long-form Census, which the Bureau of Census is expected to release in time for HUD to report in 2003. This indicator was not carried forward in the FY 2002 APP because of the long reporting interval and the difficulty of attributing results to HUD programs.

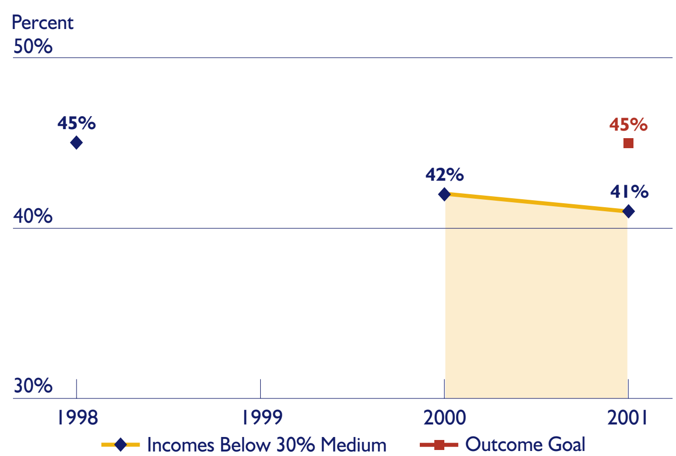
Outcome Indicator 1.2.3:
Among households living in HOME rental developments, the share with incomes below 30 percent of median at initial occupancy will be maintained at 45 percent.

Background. Renters with extremely low incomes (below 30 percent of area median) account for a high percent of the households with worst-case housing needs. This indicator tracks the contribution of HOME towards meeting the needs of these households. However, without statutory changes HUD cannot directly address the issue of rent burdens or worst case housing needs for extremely-low-income households. Participating jurisdictions have a great deal of flexibility in designing local HOME rental programs and establishing local priorities. The HOME statute currently requires that HOME assistance be provided to households below 80 percent of median income, and that 90 percent of households receiving rental assistance have incomes below 60 percent of median income.

Data entered by participating jurisdictions in HUD's Integrated Disbursement and Information System is used to track quarterly performance. Ongoing HUD-sponsored IDIS training and data clean-up efforts are used to consistently improve data quality and reliability. In future annual performance plans, this indicator will be a tracking indicator because HUD has no statutory or regulatory authority to influence its outcome.

Results and Analysis. During FY 2001, 41 percent of households living in HOME rental developments had incomes below 30 percent of area median

Percentage of Households Admitted to HOME Rental Developments Who Have Extremely Low Incomes



income, falling short of the 45 percent target. The percentage of households with extremely-low-incomes has been declining slightly, while the percent of households with incomes from 51 percent to 60 percent of area median income has increased. In FY 2000, 42 percent of HOME-assisted renters had extremely low incomes. The decline in the percent of households below 30 percent of median income can be attributed to the choices made by participating jurisdictions for the targeting of HOME assistance. There is no regulatory or statutory requirement for targeting HOME funds to renters below 30 percent of median income.

In FY 2001, 97.4 percent of households receiving HOME tenant-based rental assistance or occupying HOME-assisted rental units had incomes below 60 percent of area median, which shows greater targeting than required by the statute.

Related Program Evaluations. During FY 2001, a HUD-funded study on HOME-assisted rental housing was completed.[7] This study examined the compliance of rental properties with HOME regulations two or more years after completion. As a secondary goal, the study examined the rent burdens of tenants in HOME-assisted rental units. The study found a 95 percent compliance rate. The study also found that rent burdens were highest for extremely-low-income renters who did not also receive direct rental assistance. HUD shared the results of this study with the HOME Participating Jurisdictions and the Millennial Housing Commission.

Programmatic Output Indicator 1.2.a:
Among extremely-low-income renters, the ratio of assisted households to households with worst case needs or already assisted increases to 43 percent by 2001.

Background. This indicator relies upon data from the 2001 American Housing Survey, which will be completed in time to report in 2003. In the FY 2003 APP, this measure has been converted to a tracking indicator, with no associated goal, because the reduction of worst case needs is controlled primarily by economic factors and Congressional appropriations for incremental housing assistance.

Programmatic Output Indicator 1.2.b:
The HOPE VI Revitalization Development program for public housing relocates 2,300 families, demolishes 4,100 units, completes 12,000 new and rehabilitated units, and occupies 11,100 units.

Indicator Background and Context. HOPE VI is HUD's primary program for eliminating the worst public housing by demolishing unsustainable developments and rebuilding communities in accordance with community-sensitive principles. This indicator tracks the share of HOPE VI redevelopment plans that are being implemented on schedule in terms of four key outputs: families relocated to permit redevelopment, units demolished, new and rehabilitated units completed, and units occupied. The goals reflect planned achievements based on HOPE VI plans submitted to HUD by PHAs. Incremental goals may change if cumulative goals are achieved earlier than expected.

Results and Analysis. In FY 2001, the HOPE VI Revitalization Development program for public housing relocated 6,923 families, demolished 12,375 units, completed 4,044 new and rehabilitated units, and occupied 3,579 units. FY 2001 goals were exceeded for families relocated and units demolished, but were missed for units constructed and units occupied.

Cumulative HOPE VI Achievements	FY 2000 actual	FY 2001 FY actual
Families relocated	33,153	40,076
Units demolished	34,893	47,268
Units constructed	10,510	14,554
Units occupied	9,958	13,537

[7] *HUD Office of Policy Development and Research, 2001. "Study of the Ongoing Affordability of HOME Program Rents." Available at **www.huduser.org**.*

Public housing agencies have been slower in implementing HOPE VI redevelopment plans than originally planned and indicated to the HOPE VI program office because of influencing factors such as the extensive planning and partnering involved. Mixed financing has been a central feature of the program, but can be difficult for PHAs to coordinate. At the end of FY 2001, a cumulative total of 40,076 families had been relocated; 47,268 units had been demolished; 14,554 units (new and rehabilitated) had been completed; and 13,537 completed units had been occupied.

Programmatic Output Indicator 1.2.c:
By helping housing authorities issue rental vouchers in timely fashion, HUD decreases the share of the program administered by housing authorities with substandard lease-up rates by 10 percent.

Background. The effective use of budget resources to provide Housing Choice Vouchers is one of the Department's primary ways to reduce worst case housing needs. The newly-established baseline for this indicator is based on a revised definition under the Section Eight Management Assessment Program (SEMAP). Under a new SEMAP definition, a PHA's utilization rate is the higher of the share of budget authority spent or the share of units utilized during the PHA's fiscal years, excluding units under Annual Contributions Contracts for less than one year or reserved for litigation. An acceptable level of utilization is defined as 95 percent. This indicator also controls for differences in program size among various agencies by measuring the percentage of the program managed by agencies with substandard utilization. The data come from financial statements submitted by housing agencies after their fiscal years end.[8]

Results and Analysis. Analysis of available data provides a preliminary estimate that in FY 2001, the proportion of voucher units administered by PHAs that meet the SEMAP's 95 percent threshold for acceptable utilization increased to 55.2 percent of the program, up from 44.6 percent in FY 2000.[9] Thus, the proportion administered by agencies with substandard utilization decreased by 10.6 percentage points, from 55.4 percent to 44.8 percent. This result exceeded the target of a 10 percent reduction.

The average housing agency did not fall far short of the 95 percent threshold, as the average PHA utilization rate under SEMAP was 94.6 percent in FY 2001, up from 93.3 percent in FY 2000. HUD also examined the budget authority utilization and unit utilization components of the SEMAP measure separately. The SEMAP score is a weighted score of the composite of units leased and funds spent. In order to understand the composite score, it is important to look at the lease-up and fund utilization separately. Unit lease-up actually decreased by 1.5 percent during this period while fund utilization increased by more than 3 percent. The increase in budget authority reflected changes made by HUD to improve leasing and—as expected—resulted in a reduction in the actual number of families assisted. In order to maximize the number of units leased, HUD issued an administrative notice advising PHAs that HUD would provide additional funds to the extent necessary to allow PHAs to fully lease the units contracted with HUD.

In the past several years, the Department and Congress have taken a number of steps to improve Section 8 utilization rates. These include: merger of the certificate and voucher programs, reforms to make the voucher program more attractive to landlords, expanded flexibility for PHAs to raise voucher payment standards to respond to changes and variations in local market conditions, a requirement that recipients of new incremental vouchers have utilization rates of 97 percent or more, a new Fair Market Rent policy that allows housing agencies experiencing low voucher success rates to obtain payment standards based

[8] *Each fiscal year estimate is based on financial statements of PHAs with fiscal years ending during HUD's fiscal year: December 31; March 31; June 30; September 30. A significant number of financial reports for PHAs with fiscal years ending September 30, 2000 have not been included in the preliminary FY 2001 result because the financial statements have not yet been fully processed.*

[9] *The FY 2000 baseline is revised slightly from the 44.3 percent reported in the FY 2000 PAR, reflecting the new standard for which fiscal year end statements are included.*

on the 50th rather than the 40th percentile of rents, and authorization to allow housing vouchers to be used for homeownership. As agreed in a negotiated rulemaking with relevant stakeholders, HUD instituted a process that will provide for the reallocation of unused vouchers from PHAs that fail to achieve an adequate utilization rate. HUD also encourages PHAs that do not anticipate using all their vouchers to voluntarily reduce their program size. Finally, HUD plans to adopt a new system for tracking up-to-date utilization rates to allow for early intervention and conduct in-depth research into the causes and potential solutions for underutilization.

Under the improved SEMAP definition used for this FY 2001 measure and coming years, the unit utilization rate is defined as the number of unit-months under Housing Assistance Payment contracts divided by the number of unit-months available for leasing.[10] The budget authority utilization rate is defined as the share of funds for vouchers authorized by HUD that are actually used by the PHA.

Related Program Evaluations. PD&R has published "The Study of Section 8 Voucher Success Rates" (in two volumes). The success rate is the proportion of families issued a voucher who are able to use it to lease a suitable apartment or house within the timeframe provided (and thus the success rate differs from the utilization rate, which is the subject of a forthcoming study). The national success rate within metropolitan areas in 2000 was found to be 69 percent. This is lower than the success rate during the early 1990s, but about the same as rates in the 1980s. Success rates were found to vary with local market conditions. However, some housing agencies had relatively high success rates even in tight markets. Importantly, success rates did not differ by such characteristics as the race, ethnicity, gender, or disability status of the head of household. This suggests that the voucher program works well for many different types of households, with only a few exceptions. A qualitative study of success rates in rural areas found that voucher success rates vary widely across the five sites that were examined. The report concludes that waiting times for a voucher are shorter in rural areas than in cities or suburbs. The report also finds, contrary to conventional wisdom, that the housing stock in rural areas appears to be of acceptable quality.

Programmatic Output Indicator 1.2.d:
The number of households receiving housing assistance with CDBG, HOME, HOPWA, RHED and NAHASDA increases.

Background. HUD can utilize a number of programs to assist in providing affordable housing. The HOME Investment Partnerships program is one of HUD's major affordable housing production programs. HOME block grant assistance can be used by participating State and local governments to produce affordable rental units, assist homebuyers and existing homeowners, and provide tenant-based rental assistance.

The Community Development Block Grant (CDBG) program is another tool, although housing assistance is only one of several eligible activities among which grantees may choose. Analysis suggests that localities have reduced the proportion of CDBG funds used for housing and of HOME funds used for rental housing.

The Housing Opportunities for Persons With AIDS (HOPWA) program also supports housing assistance by providing emergency, transitional, and permanent housing coupled with supportive services to low-income persons living with HIV/AIDS and their families. HOPWA used its funds to provide housing and related supportive services through short-term rent, mortgage or utility payments; transitional or short-term housing through rental assistance or facility-based assistance; and long-term rental assistance or facility-based housing assistance.

[10] The number of unit-months available for leasing is based on the number of reserved units for which HUD has obligated funding under Annual Contributions Contracts, and adjusted to exclude units associated with funding increments obligated during the last PHA fiscal year as well as units obligated for litigation.

INCREASE DECENT, SAFE AND AFFORDABLE HOUSING

The Rural Housing and Economic Development Program (RHED), created in FY 1999, supports housing assistance by building capacity at the State and local level for rural housing and economic development and supporting innovative housing and economic development activities in rural areas.

Because of widespread shortages in affordable housing, there is a need to increase the number of households receiving housing assistance. The level of these housing outputs is subject to appropriations as well as local discretion. Future APP goals will continue to be based upon refinements of the reported accomplishments from the previous years. Results for the Section 184 Native American Home Loan Guarantee Program are described under Indicator 2.3.b.

Households Assisted	1998 act.	1999 act.	2000 act.	2001 goal	2001 act.
CDBG households	157,417	158,280	182,700	181,396	172,445
HOME tenant-based assistance	8,246	8,246	6,899	8,978	11,756
HOME rental units committed	24,148	25,114	33,487	29,574	27,456
HOME new homebuyers committed	29,514	30,695	30,748	36,145	29,690
HOME existing homeowners committed	13,415	13,952	14,731	16,429	12,566
HOME total households	75,323	78,007	85,865	91,126	81,468
HOPWA households	43,798	41,670	43,902	48,000	49,515
RHED households assisted	–	–	–	600	3,945
SHOP homeowners	558	1,983	1,675	1,400	1,655
Section 184 Native American homeowners[d]	414	176	185	275	89
Units constructed or rehabilitated with NAHASDA	not available	not available	not available	Baseline +3%	not available

Results and Analysis. During FY 2001, CDBG and HOME did not reach their numerical goals for housing assistance, in part due to changes in accounting of what constitutes an actual accomplishment, but also because of increasing costs of housing production. HOPWA and RHED, conversely, exceeded their projections for FY 2001.

CDBG. CDBG funds were used to provide housing assistance to 172,445 households in FY 2001, short of the goal of 181,396. The FY 2001 results are based upon actual accomplishments during the fiscal year reported by states and entitlement grantees. In previous years, results were estimates computed from a per-unit average cost. The FY 2001 result also excludes CDBG funds spent on housing units that had received minimal CDBG assistance (e.g., activities limited to installing smoke alarms, deadbolt locks, and other types of limited support). In previous years, CDBG funds spent for such improvements would have been included in the overall estimate. Given the evolving nature of the basis for the accomplishments data from projections to actual, the FY 2001 result compares favorably with previous years.

HOME. In the HOME program, participating jurisdictions committed 81,468 new units of assisted housing for FY 2001. Of this total, 27,456 units were rental housing, 29,690 units were homebuyer housing, 12,566 units were existing homeowner rehabilitation housing and 11,756 units were tenant-based rental assistance (TBRA). The total HOME accomplishments were less than the 91,126 units projected. TBRA units exceeded the estimate by 2,778 units, while rental units, homebuyer units and existing homeowner units were less than estimated. The per-unit HOME cost of producing a unit of rental, homebuyer and homeowner housing also increased during the fiscal year. A major IDIS data clean-up effort eliminated duplicate and inaccurately reported units, and may have contributed to the apparent reduction in overall accomplishments and the apparent significant increase in TBRA.

During FY 2001, HUD continued to provide training and technical assistance, including web-based assistance, to participating jurisdictions to improve their HOME program performance. HUD also issued monthly production reports, which were posted on the web, and aggressively followed-up with participating jurisdictions that were not meeting production goals-including deobligating funds from those that failed to meet the 24-month statutory commitment deadline. Participating jurisdictions committed $1,475,290,000 in HOME funds during FY 2001.

The accomplishment of these HOME goals is affected by several external factors: the level of annual HOME appropriations, the choices that participating jurisdictions make among the competing housing needs, and economic conditions affecting the cost of housing. HUD will continue to develop training, technical assistance and web-based products that will enable participating jurisdictions to maximize their performance. A model guide and a new training course on performance and productivity measures are in development. HUD also will continue to post monthly production reports and the relative rankings of participating jurisdictions on the web page. IDIS data clean-up efforts will continue.

HOPWA. A preliminary estimate based on FY 2001 financial data anticipates that the Housing Opportunities for Persons With AIDS program supported 49,515 units of housing, exceeding HUD's goal of 48,000 units. Based on financial and performance data gathered in 1998, the most recent available, HOPWA supported 183 units of housing for every $1 million expended (at $5,500 per unit). As the remaining HOPWA formula grantees submit accomplishment information to HUD, the office will update these reported accomplishments.

In FY 2001, HOPWA disbursed $270,574,624 to grantees to support HIV/AIDS housing programs across the country.[11] Further, HOPWA grantees were able to leverage over $164.7 million in State, local, and other Federal resources to support 40,403 units of housing.

RHED. As a result of applications receiving awards for the FY 2001 competition, 3,945 units of new construction or housing rehabilitation are to be completed, exceeding the target of 600. In the future, projections for this program can only be estimates because of the nature of the program's purpose—to encourage potential grantees to build capacity within their organization and develop innovative approaches to support rural housing and economic development.

SHOP. The SHOP program completed 1,655 properties in FY 2001, exceeding the goal of 1,400. Under SHOP, grant funds are combined with local funding and donated materials, and prospective homeowners perform construction-related work with volunteers, which vastly reduces labor costs. Grantee organizations such as Habitat for Humanity play a critical role in motivating volunteer resources and supporting affiliates.

Programmatic Output Indicator 1.2.e:
The number of HOME production units that are completed within the fiscal year will increase by 4 percent.

Background. This indicator tracks the number of HOME-assisted units that have been put into service. Data entered by participating jurisdictions in HUD's Integrated Disbursement and Information System are used to track quarterly performance. Ongoing HUD-sponsored IDIS training and data clean-up efforts are used to consistently improve data quality and reliability. Future annual performance plans will continue to track the number of HOME production units that are completed within the fiscal year.

[11] This figure has been adjusted from what is reported in HUD budget and financial statements to account for approximately $30 million expended by New York City but not recorded in FY 2001 because of the terrorist events of September 11th.

HOME Units Completed	Total through FY 1998	FY 1999 act.	FY 2000 act.	FY 2001 goal	FY 2001 act.
HOME rental units produced	72,469	18,806	29,309	20,340	20,453
HOME new homebuyers	77,363	25,008	34,126	27,048	24,757
HOME existing homeowners	60,053	12,254	13,174	13,254	9,938
HOME total households assisted	209,885	56,068	76,609	60,643	55,148

Results and Analysis. During FY 2001, participating jurisdictions completed 55,148 HOME-assisted production units, slightly less than the 60,643 units projected. Of this total, 20,453 units were rental housing, 24,757 units were homebuyer housing and 9,938 units were existing homeowner rehabilitation housing. Completed rental units slightly exceeded the estimate, while homebuyer units and existing homeowner units were less than estimated. The per-unit HOME cost of producing a unit of rental, homebuyer and homeowner housing increased during the fiscal year. A major IDIS data clean-up effort eliminated duplicate and inaccurately reported units, and may have contributed to the apparent reduction in overall accomplishments.

During FY 2001, HUD continued to provide training and technical assistance, including web-based assistance, to participating jurisdictions to improve their HOME program performance. HUD also issued monthly production reports, which were posted on the web, and aggressively followed up with participating jurisdictions that were not meeting production goals. All participating jurisdictions have met the five-year expenditure deadline. Participating jurisdictions disbursed $1,320,980,000 in HOME funds during FY 2001.

The accomplishment of this output indicator is affected by several external factors: the level of annual HOME appropriations, the choices that participating jurisdictions make among the competing housing needs and economic conditions affecting the cost of housing. HUD will continue to develop training, technical assistance and web-based products that will enable participating jurisdictions to maximize their performance. A model guide and a new training course on performance and productivity measures are in development. HUD will also continue to post monthly production reports and the relative rankings of participating jurisdictions on the web page. IDIS data clean-up efforts will continue.

Programmatic Output Indicator 1.2.f:
All households living in HOME-assisted rental units will be income eligible and pay appropriate rent.

Background. HOME requires that rental housing be occupied by income-eligible tenants at affordable rents for a period of five to twenty years after completion, depending on the type and amount of HOME assistance. The Office of Policy Development and Research awarded a contract for a baseline survey of HOME rental developments to determine compliance with HOME long-term affordability requirements. This study was completed in June 2001. Based on the results of this study, future performance plans will not track this programmatic output indicator. This data can only be extracted at project completion from HUD's Integrated Disbursement and Information System (IDIS). Ongoing compliance is generally reviewed as part of HUD's on-site monitoring of a participating jurisdiction's HOME performance.

Results and Analysis. The June 2001 study of HOME-assisted rental housing[12] found that 95 percent of the units surveyed were in compliance with HOME rent requirements two or more years after completion. The study concluded that the few cases of non-compliance with HOME rent requirements were caused by misunderstandings about the HOME requirements. HUD will address these misunderstandings through technical assistance and training. A web-based training module on managing HOME-assisted rental developments to ensure program compliance is in development and additional sessions of our course on property and asset management are scheduled for nationwide delivery.

Outcome Indicator 1.2.4:
The number of elderly households living in a public or assisted housing development that is served by a service coordinator for the elderly increases, by 3 percent above FY 1999 levels for private assisted housing.

Background. Service coordinators improve the quality of life of elders by helping them remain as active and independent as their health permits. Service coordinators for public housing and assisted housing projects are funded in a number of ways: through grants made by the Office of Housing, from assisted housing project budgets and reserves, from public housing Operating and Capital Funds, and from other resources raised in the community. The Resident Opportunity and Supportive Services program renews expired elderly coordinator grants for public housing developments, but no programs exist to increase the number of service-enhanced elderly developments in public housing.

HUD received a significant increase in funding for service coordinators in assisted multifamily housing, from $13 million in FY 1999 to $50 million in FY 2000, to help meet the needs of a growing population that is aging in place. The Service Coordinator program was funded at $50 million again in FY 2001. This measure uses data for elderly private multifamily projects with service coordinators from the Office of Housing service coordinator grants database.

Results and Analysis. During FY 2001, Service Coordinator grants funded service coordinators for 22,083 additional units in elderly projects. The new grants increased the total number of units in elderly developments with service coordinators by 54 percent to over 63,000.[13] The increase substantially exceeded the 3 percent target. Elderly households are defined as families or individuals with a head or spouse aged 62 or older.

Of the $50 million appropriation for 2001, $25 million was used for 217 grants to fund service coordinators in new properties. The balance was used to renew existing properties. In addition, owners used residual receipts of $0.77 million as project match funds. Revised rules that permit use of owners' residual receipts for service coordinators thus added 3 percent to federal funding for new projects during FY 2001. The number of units with service coordinators is dependent on appropriation levels and the quality of applications submitted. To increase the number of service-enhanced units, HUD will continue to encourage owners to use residual receipts to leverage federal resources. The Department also will enhance the Service Coordinator program as appropriate on the basis of ongoing program reviews, grantee operations and NOFA responses. The Department also encourages service coordinators to assist low-income elderly families living near, as well as those residing in, Section 202 projects.

[12] *HUD Office of Policy Development and Research, 2001. "Study of the Ongoing Affordability of HOME Program Rents." Available at* ***www.huduser.org****.*

[13] *This total includes currently-funded developments that were first funded in FY 1998 and following years. A small additional number of units in developments funded prior to FY 1998 has not been determined.*

Outcome Indicator 1.2.4.5:
Service-enriched housing increases the satisfaction of elderly families and individuals with their units, developments, and neighborhoods.

Background. The Service Coordinator program funds service coordinators in assisted multifamily housing developments. Service coordinators may provide personal assistance with daily activities, provide transportation to medical appointments or shopping, establish health and wellness programs in the community, and make physical improvements to provide space for support services. Frail elderly residents report higher quality of life and increased independence in developments that have service coordinators on staff, as shown by two demonstration programs, the HOPE for Elderly Independence Demonstration and the Congregate Housing Services Program, and an evaluation of the Service Coordinator program. Even elderly persons who are not "frail"—defined as needing help with three activities of daily living—will have greater ability to age in place when service coordinators provide appropriate support for independent living.

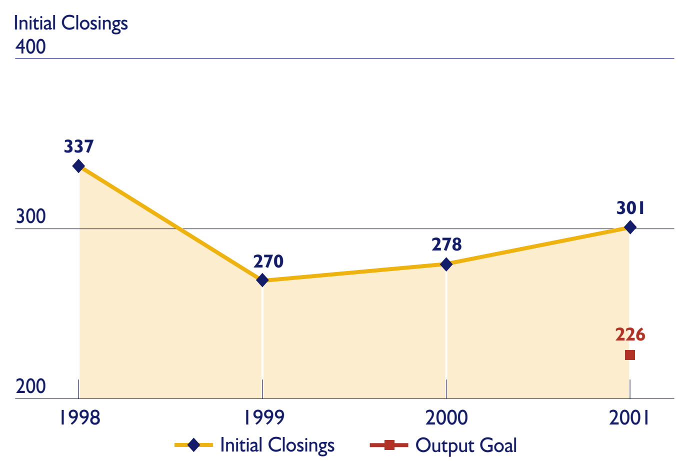
This indicator tracks the satisfaction of elderly residents (62 and older) in privately-owned assisted housing, comparing the satisfaction of elderly households in developments with and without service coordinators. Resident satisfaction is measured using a survey conducted by the Real Estate Assessment Center.

Results and Analysis. In order to develop a baseline, HUD compared resident survey results for 114 elderly projects that had service coordinator grants with 1,210 elderly projects that did not have a coordinator. The preliminary results showed that during Spring 2001, residents in service coordinator projects were slightly more satisfied overall. Of residents in service coordinator projects, 86.0 percent expressed overall satisfaction, compared with 85.1 percent in unfunded elderly projects. However, the difference of 0.9 percentage points is not statistically significant. HUD will review this measure to determine whether it has continued validity or if the baseline should be improved through a more comprehensive selection of funded projects or by using a more complex procedure to count only elderly residents.

Programmatic Output Indicator 1.2.g:
Increase the availability of affordable housing for the elderly and persons with disabilities by bringing 226 projects to initial closing under Sections 202 and 811.

Background. HUD provides a substantial number of housing units for populations with special needs each year. Project sponsors can receive direct loans for multifamily development under the Supportive Housing for the Elderly (Section 202) program and the Supportive Housing for the Disabled (Section 811) program. During 1996-2001, annual appropriations averaged $650 million for Section 202 housing and about $200 million for Section 811 housing. This indicator tracks the number of projects each year that reach the closing stage (when the project design has been approved and all of the local community requirements have been met). This measure used data from the Development Applications Processing (DAP) system. HUD's central office receives copies of the closing documents that will be used to verify data system entries. DAP data also are used to track management plan goals and accomplishments, which helps ensure that data are accurate.

Initial Closings of Developments Under Sections 202 and 811



Results and Analysis. During FY 2001, HUD brought 301 Section 202 and 811 projects to initial closing. The performance exceeded the goal of 226 closings by 33 percent.

In recent years HUD has increased the emphasis on timely closings. Section 202 and 811 projects can be difficult to bring to closing because sponsors usually must find other sources of funding. Some project features are not fundable by the program but are necessary to meet the needs of the population. Sponsors may experience cost increases between the time of application and the projected time for construction. Other delays are encountered because neighborhoods sometimes oppose the developments. As a result of recent progress, the pipeline of fund reservations over two years old has been declining.

HUD is continuing to emphasize timely initial closings. Regulations are being developed to expedite processing, and more authority is being delegated to field staff. Other strategies are addressing the issue of external sources of funding. In FY 2002, HUD is implementing a policy to allow non-profit sponsors of Section 811 developments to form limited partnerships with for-profit entities. The partnerships will help them compete for low-income housing tax credits and give them greater discretion in how funds are used to meet the needs of persons with disabilities and their households. Also, in 1999 the Department signed a Memorandum of Understanding with the Federal Housing Finance Board. The memorandum established a policy for how the Federal Home Loan Banks could use Affordable Housing Program funds for subordinate financing of Section 202 and Section 811 projects. The policy streamlined the approval process and decreased the time it takes to finance these projects. Programmatic Output Indicator 1.2.g.5: At least 10 Section 202 developments will complete conversion of units to assisted living by FY 2003.

Background. HUD's FY 2000 and FY 2001 appropriations included funds to convert Section 202 multifamily projects for the elderly to assisted living. The conversions may involve entire projects or a subset of their units. This funding supports HUD's continuum of care strategy for the elderly and responds to the projected increase in demand for assisted living accommodations caused by the aging of the baby boom generation. In FY 2000, $20 million was awarded for 13 properties (10 of which are the projected goal accomplishment for FY 2003). An additional $20 million was awarded for 12 properties in FY 2001. Grant funds are provided for physical conversion needs only; service provider costs are not included and tend to be high.

Local sponsors often experience delays in licensing because conversions to assisted living are subject to state licensing requirements. This indicator tracks the number of Section 202 developments that complete their modifications under the Section 202 conversion program within a reasonable period. FY 2003 will be the first year of full reporting.

Programmatic Output Indicator 1.2.h:
By FY 2002, assisted-living facilities in at least five States will house elders using housing vouchers combined with Medicaid or other third-party funding for services.

Background. Currently, just over half the States have approved Medicaid waivers for assisted living for the elderly. HUD will make these waivers usable in combination with housing subsidies because, in FY 2000, HUD was given authorization to allow housing agencies to use housing vouchers in assisted-living developments. This indicator measures the number of states that make assisted-living units affordable by combining housing choice vouchers with third-party funding. The Public and Indian Housing Information Center (PIC) System began collecting tenant data in June 2001 on the basis of buildings and units rather than merely projects, which will support analysis of elderly and non-elderly buildings within a project. These data will be available in FY 2002.

Outcome Indicator 1.2.5:
For extremely-low-income renters, the number of affordable units increases from 76 per 100 ELIR households to 78 by 2001.

Background. An extremely-low-income renter (ELIR) is one whose income is less than 30 percent of area median income. In 1999, there were 3.75 million extremely-low-income renters with worst-case housing needs. The latest available data show that nationally in 1999, there were only 75 units for every 100 ELI renters, down from 84 units per 100 renters in 1991. Moreover, because many of those units were already occupied by renters with higher incomes, there were effectively only 39 units in 1999 that were both affordable and available for every 100 ELI renters, down from 48 units per 100 renters in 1999. This indicator relies upon data from the 2001 American Housing Survey, which will be completed in time for the FY 2002 Performance and Accountability Report.

Outcome Indicator 1.2.6:
For very-low-income renters, the number of affordable units actually available increases from 68 per 100 VLIR households to 72 by 2001.

Background. A very-low-income renter (VLIR) is one whose income is less than 50 percent of area median income. Much of HUD's housing assistance is targeted to VLI renters. The latest available data show that in 1999, 10.9 million unassisted VLIR had "worst case needs" for housing assistance, most of whom paid more than half of their income for housing. Another 6.6 million VLI renters paid 31 to 50 percent of income for rent. This indicator relies upon data from the 2001 American Housing Survey, which will be completed in time to report in the FY 2002 Performance and Accountability Report.

Outcome Indicator 1.2.7:
Ratios of affordable units to extremely-low-income households will be higher for at least six of the 30 States that in 1990 had absolute shortages of rental units affordable to extremely-low-income households.

Background. This indicator relies upon data from the 2000 long-form Census, which the Bureau of Census is expected to release in time for HUD to report in 2003. Because of the difficulty in attributing the results of this indicator to HUD programs, the indicator was not included in the FY 2002 Annual Performance Plan.

Outcome Indicator 1.2.8:
Ratios of affordable rental units to rental households will be higher for at least four of the 16 States that in 1990 had absolute or relative shortages of rental units affordable to very-low-income households.

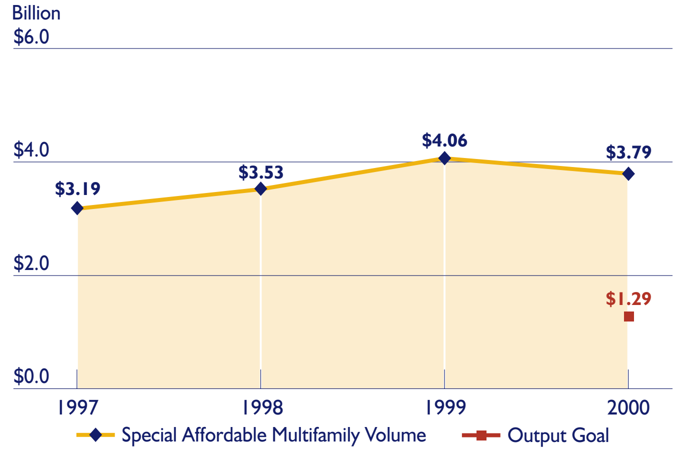
Background. This indicator relies upon data from the 2000 long-form Census, which the Bureau of Census is expected to release in time for HUD to report in 2003. Because of the difficulty in attributing the results of this indicator to HUD programs, the indicator was not included in the FY 2002 Annual Performance Plan.

Programmatic Output Indicator 1.2.i:
Fannie Mae and Freddie Mac meet or surpass HUD-defined targets for special affordable multifamily mortgage purchases.

Background. This indicator tracks the performance of the GSEs in providing capital for affordable multifamily housing. The GSEs purchase loans directly from primary market mortgage originators, such as mortgage bankers and depository institutions. The loans are either held in the GSEs' portfolios or issued as mortgage-backed securities for sale in capital markets.

Qualifying multifamily mortgages provide five or more units that are affordable at incomes less than or equal to 60 percent of area median, or affordable at less than or equal to 80 percent of area median and also located in low-income areas. This measure uses calendar year data that have a one-year lag because they come from audit reports. Beginning with calendar year 2001, the target for special affordable multifamily mortgage purchases increases to $2.85 billion for Fannie Mae and $2.11 billion for Freddie Mac.

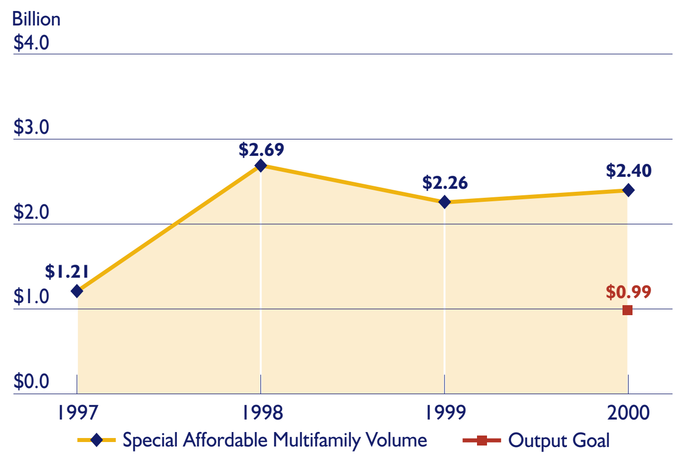
Fannie Mae Performance Relative to Special Affordable Multifamily Goal



Results and Analysis. In calendar year 2000, Fannie Mae purchased $3.79 billion of qualifying multifamily mortgages, exceeding the goal of $1.29 billion. Freddie Mac purchased $2.40 billion of mortgages, exceeding its goal of $0.99 billion.

Both GSEs surpassed their special affordable multifamily goals by a substantial margin. However, the multifamily goals reported here are the only housing goals for which the GSEs failed to set new records in 2000. About half of the multifamily mortgages purchased during 2000 qualify as special affordable mortgages-52 percent for Fannie Mae and 49 percent for Freddie Mac.

Freddie Mac Performance Relative to Special Affordable Multifamily Goal



Related Program Evaluations. A "Study of Multifamily Underwriting and the GSEs' Role in the Multifamily Market" was published in early 2002. The study analyzes credit availability for affordable multifamily properties, credit gaps in segments of the market, the position of Fannie Mae and Freddie Mac in the market, and related fair lending issues. The researchers found that the GSEs' leadership in the multifamily mortgage market is principally one of setting the standards for underwriting and financing properties. The GSEs' multifamily purchases do not appear to be contributing consistently to the mitigation of excessive cost of mortgage financing facing small properties. The report makes recommendations for improvements in HUD monitoring of GSE multifamily activities.

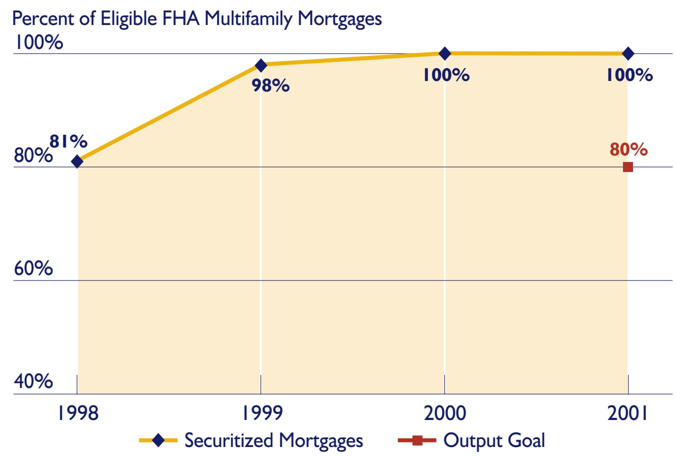
Programmatic Output Indicator 1.2.j:
Ginnie Mae securitizes at least 80 percent of eligible FHA multifamily mortgages.

Background. Ginnie Mae helps ensure that credit is available for multifamily residential lending through two major programs: Mortgage-Backed Securities and Multiclass Securities. For mortgage-backed securities, Ginnie Mae helps lenders securitize FHA-insured multifamily loans for the secondary market, with Ginnie Mae guaranteeing the timely payment of principal and interest. Under the Multiclass Securities program, Ginnie Mae guarantees the timely payment of principal and interest on products such as Real Estate Mortgage Investment Conduits (REMICs) and Ginnie Mae Platinum Securities. Securitization increases the availability of capital for the multifamily mortgage market, making loans less costly and easier to obtain. Some types of FHA multifamily loans (elder care facilities, risk sharing, and hospitals) are not eligible for securitization by Ginnie Mae. This measure is based on a Ginnie Mae database of multifamily loan securities compared with a FHA multifamily database with ineligible projects excluded. Ginnie Mae and FHA data are subject to audits. The FY 2001 target was established at 66 percent, then raised to 80 percent in the Revised FY 2001 APP. The goal has been increased to 90 percent for FY 2003.

Results and Analysis. In FY 2001, Ginnie Mae securitized 100 percent of eligible multifamily mortgages, just as it had in FY 2000. The performance exceeded the goal of 80 percent.

Based on the potential for continued strong performance, Ginnie Mae has increased the goal to 90 percent in the FY 2003 APP. This new target reflects a meaningful and sustainable level of performance in a changeable and competitive market. Many larger FHA multifamily mortgages have in the past been sold directly to investors, such as pension funds, who do not require the Ginnie Mae guaranty. In order to improve the efficiency of operations, Ginnie Mae is pursuing electronic commerce, recently completing a successful pilot of electronic processing of securities backed by multifamily loans.

Eligible FHA Multifamily Mortgages Securitized by Ginnie Mae



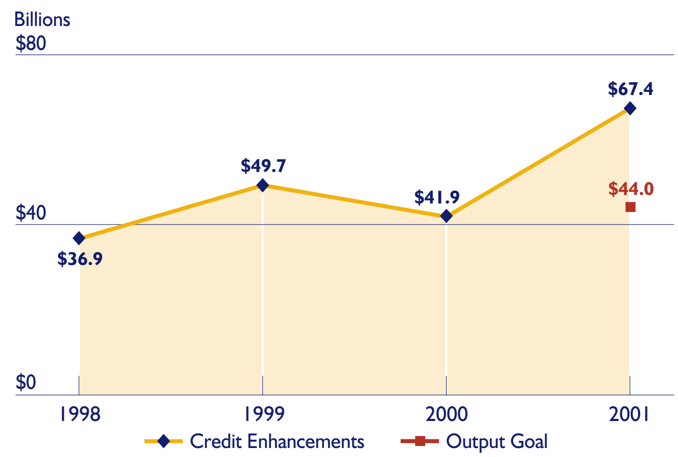
Programmatic Output Indicator 1.2.k:
Ginnie Mae credit enhancements on multi-class securities increase by 5 percent to $57.5 billion in FY 2001.

Background. Ginnie Mae's multi-class products help to reduce the cost of capital for borrowers by increasing the secondary mortgage market's liquidity. Multi-class product include Real Estate Mortgage Conduits (REMICS) and Ginnie Mae Platinum Securities. Multiclass securities are pools of mortgages or mortgage-backed securities for which principal and interest payments are directed into various security classes (tranches). By spreading investor risk among the tranches, REMICs increase the secondary mortgage market's liquidity, which can reduce the cost of capital for borrowers. The Platinum product provides customers the ability to trade a group of small pools for one large pool. For FY 2002, another incremental goal of 10 percent has been established, increasing the volume to $73.7 billion. In the FY 2003 APP, the goal has been set at $80.9 billion.

Results and Analysis. In FY 2001, Ginnie Mae increased the volume of multi-class securities to $67.4 billion, substantially above the $41.9 billion in FY 2000. The increase of 61 percent from FY 2000 levels was substantially greater than the FY 2001 performance goal of a 5 percent increase.

The primary cause of the dramatic growth in the volume of multi-class securities was lower interest rates during FY 2001. In order to improve the efficiency of operations, Ginnie Mae is pursuing electronic commerce and web-based communications, including the ability for web users to register for training online and to download prospectuses for multiclass products.

Issuances of Ginnie Mae Credit Enhancements on Multi-Class Securities



Programmatic Output Indicator 1.2.l: FHA endorses at least 700 multifamily mortgages.

Background. FHA multifamily mortgage insurance is vitally important to a number of higher risk segments in the housing industry, including small builders, buyers or owners of aging inner-city properties, and nonprofit sponsors. The Federal Housing Administration offers many unique and valuable products in the market and brings stability to the market. FHA also retains a leadership position in the market for high loan-to-value and long-term fully-amortizing multifamily loans, which can help in the provision of affordable rental housing. This goal will be increased to 800 endorsements in FY 2002, and then decreased to 650 in FY 2003.

Results and Analysis. FHA endorsed 758 multifamily mortgages in FY 2001, exceeding the performance goal by 8.2 percent. This success was in part due to 137 restructured loans that closed under the Mark-to-Market program (see Indicator 1.2.n). The target might have been exceeded by an even greater amount, but a credit subsidy shortfall in midyear limited HUD performance. Although this measure depends to great extent on market-driven demand, FHA was able to stimulate demand by implementing and training staff on Multifamily Accelerated Processing (MAP). MAP provides prompt and nationally consistent and predictable processing of applications submitted by some 100 MAP approved lenders nationwide. In the future, FHA intends to minimize dependence on credit subsidies through increased mortgage insurance premiums.

Programmatic Output Indicator 1.2.m: Among multifamily developments newly insured by the FHA General and Special Risk Insurance funds, the share of units that are affordable to households with incomes below 60 percent of median increases by 1 percentage point from FY 2000 levels.

Background. The vast majority (more than 95 percent) of multifamily rental units that are newly mortgaged, including those mortgaged conventionally, are affordable to households at or below area median income. However, it is difficult to determine the share of units insured by FHA that are affordable at 60 percent of area median income-units that would increase the availability of decent housing to low-income households and to poorer families with rent vouchers.

As discussed in the FY 2000 PAR, extensive system enhancements would be necessary in order to report rent affordability at the unit level among insured developments, and no such enhancements are planned for the immediate future under anticipated capital funding levels. Thus, no data are available for this indicator.

For FY 2002, a replacement proxy measure was proposed, "Among multifamily developments newly insured by FHA, the share of units that are combined with Low Income Housing Tax Credits increases by 1 percentage point from FY 2001 levels." Reflecting the lack of tools that the Department has available to affect the affordability of multifamily developments, this indicator has not been carried forward for FY 2003.

Programmatic Output Indicator 1.2.n:
Approximately 550 projects under the M2M program will have rents reduced and where appropriate will involve mortgage restructuring.

Background. Under the Mark-to-Market (M2M) program, the Office of Multifamily Housing Assistance Restructuring (OMHAR) analyzes FHA-insured multifamily properties for which Section 8 rents exceed comparable market rents, and reduces Section 8 rents to bring them in line with comparable market rents or levels that preserve financial viability. Properties also are eligible for debt restructuring that involves a write-down of the existing mortgage in conjunction with the reduced rent levels. The M2M program seeks to preserve affordable housing stock by maintaining the long-term physical and financial integrity of such housing and to reduce the Section 8 rental assistance costs and the cost of FHA insurance claims. This measure uses data from the M2M Management Information System (M2M MIS). The FY 2001 goal of 550 projects was established in the Revised FY 2001 APP and the FY 2000 PAR. For FY 2002, the revised target is 750 projects, reflecting the current pipeline and performance data. The volume of properties received has been less than expected and a significantly greater portion of the pipeline has been for full debt restructurings rather than rent restructurings.

Results and Analysis. During FY 2001, OMHAR completed 607 deals under the M2M program, exceeding the goal of 550 deals. The result is an increase of 20 percent above the 504 deals completed during FY 2000 (revised from the 494 published last year to reflect more complete reporting). Of the 607 deals completed in FY 2001, 274 were completed and closed with a full debt restructuring of the mortgage.

The rent reductions resulted in annual Section 8 savings of $47.5 million for FY 2001 and $24.2 million for FY 2000. Significant progress was made over the course of the fiscal year in closings of full debt restructurings. During the first six months (October - March), closings averaged 11 per month, compared with an average of 35 closings monthly during the last six months (April - September).

During the latter part of FY 2000 and early part of FY 2001, OMHAR management implemented various programs to aid in the effectiveness and performance of the M2M program. The Multiple Property Owner initiative, which was introduced in late FY 2000, has proven to be a positive impact on the flow of deals entering the M2M program. It encourages owners to bring expiring Section 8 contracts into the M2M program prior to their expiration date. This initiative has brought in approximately 150 properties into the M2M program. The owner works with one OMHAR Regional Office and one Participating Administrative Entity (PAE), regardless of the location of the property. This allows the owner to have one contact point at OMHAR as well as one with a PAE.

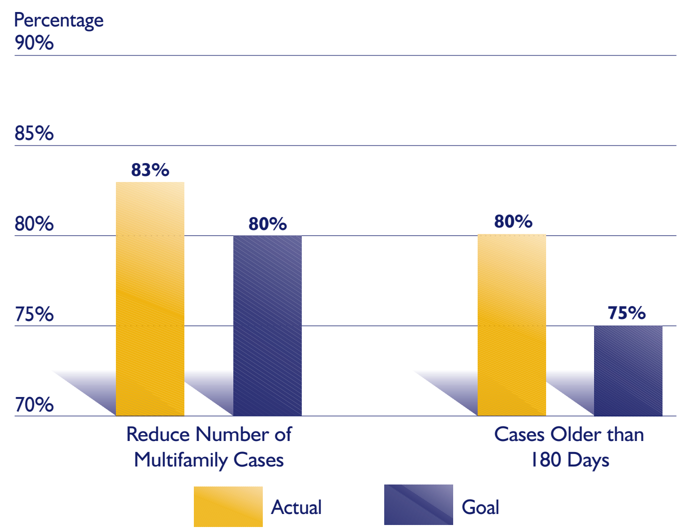
Another program implemented during the fiscal year was the bi-weekly Pipeline Management Call between OMHAR Headquarters and its Regional Offices. The calls, instituted in January, facilitated the removal of production blockages and significantly improved the timeliness of the full debt restructurings (Fulls) during the rest of the year. OMHAR developed seven milestone categories and if a property fell into one of those categories it was considered "monitored," while other properties were considered "on-schedule." Over the remaining nine months, on-schedule Fulls increased by 55 percent and "monitored" properties decreased 30 percent. The M2M MIS is used by management to monitor the progress of each property. OMHAR also streamlined its Operating Procedures Guide and continues to revisit policy issues to enhance the M2M program.

Programmatic Output Indicator 1.2.o:
Among high-risk or troubled multifamily projects referred to EC, the share that have aged pending enforcement and the share that have aged during enforcement processing will decrease.

Background. The Departmental Enforcement Center (DEC) addresses serious problems of distressed multifamily properties that have failed physical and financial inspections and require corrective action by owners, lenders and management agents. This indicator tracks the flow of cases through DEC to promote their timely resolution. The indicator was modified in FY 2002 to track three goals: reducing the number of cases as of the beginning of the fiscal year by 80 percent, closing 75 percent of cases received during the fiscal year that have been in the DEC for 180 days, and closing cases received during the fiscal year in an average of 180 days or less. Because the new indicator provides more detail with respect to the operations of the DEC, it is being reported here.

Results and Analysis. During FY 2001, the DEC reduced the number of Multifamily cases in the DEC as of September 30, 2000 by 83 percent, exceeding the goal of 80 percent. The DEC also closed 80 percent of all cases received in FY 2001 that had been in the DEC for 180 days, exceeding the goal of 75 percent. During FY 2001, cases were closed in an average of 121 days, exceeding the goal of 180 days. Sanction notices to participants for suspension and/or proposed debarment were completed for 80 percent of the cases referred for the fiscal year for indictment, civil judgment, conviction and fact-based cases. A more detailed description of the results and benefits of the DEC appears in Goal 5 of the Discussion and Analysis of Operations section of this report.

DEC Goals for Aged Cases



Programmatic Output Indicator 1.2.p:
Among Consolidated Plan jurisdictions with housing authorities, the share that have included housing authority representatives in consolidated planning efforts reaches 90 percent.

Background. This indicator tracks the share of Consolidated Plans that demonstrate that States or communities include officials from housing agencies in a decision-making role. Both States and cities are required to develop Consolidated Plans to assess needs and determine strategies for allocating HUD grants. Consolidated Plans must consider the full range of community needs to be valid guidelines, and the families served by housing agencies represent an important component of area needs.

Results and Analysis. Data for this indicator is not available for FY 2001. Because reliable data is not available on an annual basis for this measure, it will no longer be reported. HUD is reviewing alternatives for streamlining the consolidated planning process and enhancing citizen participation. HUD is exploring new indicators to measure public participation.

Programmatic Output Indicator 1.2.q:
The share of EZs and ECs achieving local goals is 85 percent for new affordable housing activities and 80 percent for rehabilitated affordable housing.

Background. The Empowerment Zone/Enterprise Community (EZ/EC) program is an important tool for economic and community development in distressed communities. HUD designated 89 EZ or EC communities on the basis of the quality of their locally developed strategic plans and awarded flexible grants to 15 urban Round II EZs. This indicator reflects HUD's commitment to empowerment with accountability for its partners, because communities are assessed in terms of the performance relative to the benchmarks in their plans. This indicator is based on Implementation Plans completed during the performance year. Each EZ and EC is assessed in terms of its performance relative to the output measures identified in its plans. More detail about this indicator is presented as Indicator 4.2.b.5.

Results and Analysis. In FY 2001, the share of EZs and ECs achieving local goals for new affordable housing activities was 88 percent, and the share that achieved local goals for rehabilitated affordable housing was 85 percent. As a result, HUD surpassed its FY 2001 goal in both categories.

Objective 1.3: America's housing is safe and disaster-resistant.

Outcome Indicator 1.3.1:
The share of very-low-income households living in units with moderate or severe physical problems decreases from 7.3 to 7 percent for owners and from 14 to 13 percent for renters by 2001.

Background. This indicator relies upon data from the 2001 American Housing Survey, which will be completed in time to report in 2003. This indicator is not carried forward to the FY 2003 Annual Performance Plan because of the difficulty of attributing results to HUD programs.

Outcome Indicator 1.3.2:
Among units occupied by low-income households, the share containing threats to health and safety decreases by 0.2 percentage points to 5.9 percent.

Background. This indicator relies upon data from the 2001 American Housing Survey, which will be completed in time to report in 2003. Beginning in FY 2002, this indicator is not included in the Annual Performance Plan because of the difficulty of attributing results to HUD programs.

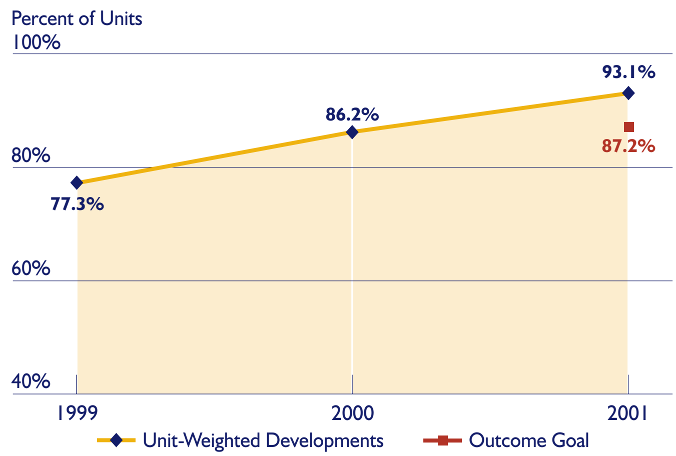
Programmatic Output Indicator 1.3.a:
The number of households receiving housing assistance with CDBG, HOME, HOPWA, RHED and NAHASDA increases.

Background. This indicator tracks the number of households that receive housing assistance through various HUD programs that provide funding for housing assistance. Because funding can be used for rehabilitation of units, thus making them safer, the indicator has been repeated under this objective. A complete discussion of this indicator is included under Indicator 1.2.d.

Outcome Indicator 1.3.3:
The share of units that meet HUD-established physical standards increases by 1 percentage point to 64 percent of public housing units and 79 percent of assisted multifamily units.

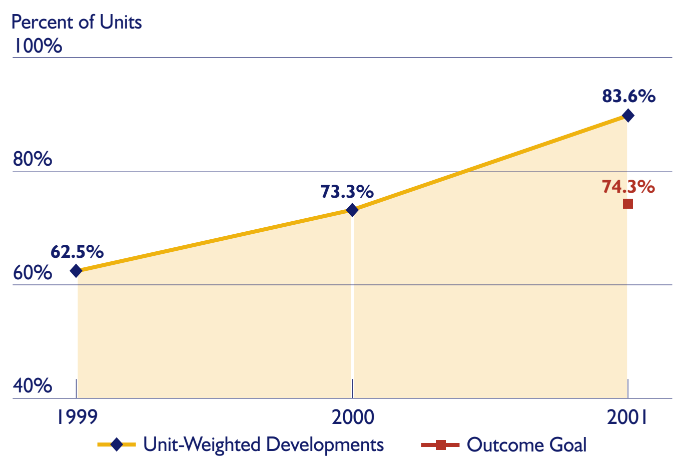
Background. Housing agencies are required to inspect and maintain public housing to ensure compliance with HUD-established standards, or with local codes if they are more stringent. Private owners of assisted housing also have a contractual obligation to meet physical standards. Data for this indicator are from REAC's Physical Assessment Subsystem, and represent the latest available inspections as of February, 2002. In FY 2002, HUD has set a target of a 3 percentage point increase for this measure, and in FY 2003, the target is a 1.5 percentage point increase.

Share of Units Located in Assisted Multifamily Developments that Meet Physical Standards



Results and Analysis. In FY 2001, 94.1 percent of properties representing 93.1 percent of assisted multifamily units met HUD-established physical standards. This represents a substantial increase of 7 percentage points over the FY 2000 level of 86.2 percent units and significantly surpassed HUD's target of a 1 percentage point increase. For public housing, 90.7 percent of properties representing 83.6 percent of units met HUD-established physical standards. This was also a significant increase over the FY 2000 level of 73.3 percent of units, surpassing HUD's target. These results are discussed in detail under Objective 1.3 of the Discussion and Analysis of Operations section of this report.

Share of Units Located in Public Housing Developments That Meet Physical Standards



Outcome Indicator 1.3.4:
The average number of life-threatening health and safety deficiencies observed per 100 properties inspected decreases by 10 percent annually between 1999 and 2001, from 100.8 to 81.7 in public housing and from 95.3 to 77.2 in assisted multifamily housing.

Background. HUD's Real Estate Assessment Center inspects the physical conditions of public and assisted housing and identifies life-threatening deficiencies such as exposed electrical wires, blocked exits and gas leaks. HUD has determined that the indicator as it appeared in the FY 2001 APP is not a valid measure because the number of units inspected per property varies and the resulting data do not accurately portray the state of public and assisted housing. The replacement measure being reported here is the number of units located in properties with life-threatening deficiencies. Data for this indicator are from REAC's Physical Assessment Subsystem. Data represent the most recent inspection for properties as of the end of FY 2001. In FY 2002 and beyond, HUD will report the number of units in properties with exigent health and safety or fire safety deficiencies.

Results and Analysis. As of the end of FY 2001, 46.9 percent of properties, and 18.4 percent of public housing units, had life-threatening deficiencies. For assisted multifamily housing, 37.3 percent of properties, and 15.4 percent of units, had life-threatening deficiencies. A complete discussion of the physical quality of public and assisted housing is located in Objective 1.3 of the Discussion and Analysis of Operations section of this report.

Programmatic Output Indicator 1.3.b:
As part of the effort to eliminate 100,000 units of the worst public housing, demolish 12,000 units during FY 2001.

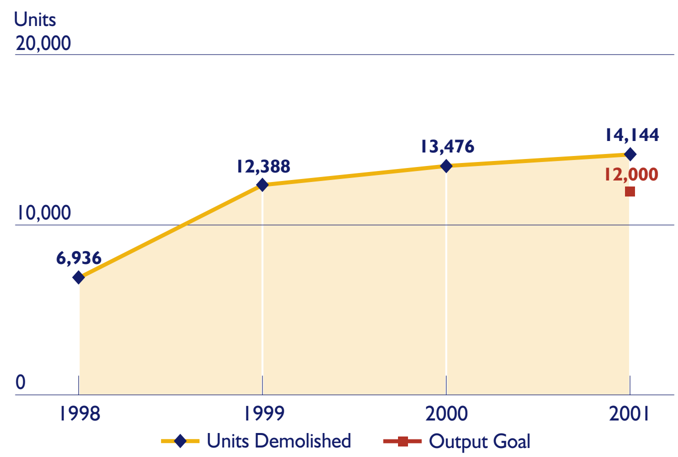
Background. Many units of high-rise public housing for families with children already have been demolished. These developments, ill-designed for family occupancy, experienced crime and social breakdown that contributed to severe maintenance problems and excessive vacancies. The troubled stock in some cases is physically uninhabitable and in other cases drains PHA resources because it is too costly to operate. Demolishing distressed stock is often a prerequisite for reconstruction and relocating families in safer and more humane environments.

HUD intends to demolish 100,000 units of severely distressed public housing by FY 2003. The goal for this indicator has been increased to 13,000 per year for fiscal years 2002 and 2003.

Results and Analysis. As of the end of FY 2001, a cumulative total of 73,857 units had been reported demolished as part of the goal of demolishing 100,000 units. This represents a 14,144 unit increase from the end of FY 2000, surpassing HUD's goal of 12,000. This level puts HUD on track to achieve the longer term goal of demolishing 100,000 units by FY 2003.

Data for this indicator do not strictly represent the number of units demolished during the fiscal year because PHAs regularly provide updates that identify demolished units that had not been recorded previously, even from a prior fiscal year. Therefore, the data represent the change in cumulative units that are reported as demolished as of the end of the fiscal year.

Public Housing Units Demolished Annually



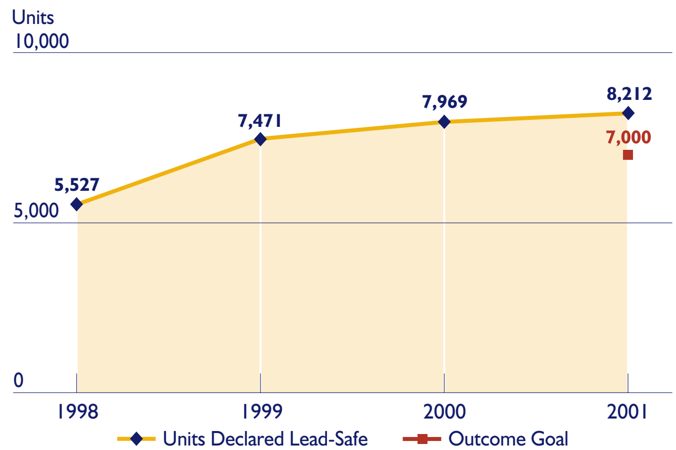
Outcome Indicator 1.3.5:
As part of a ten-year effort to eradicate lead hazards, increase the cumulative number of housing units made lead safe by the Lead Hazard Control Grant Program by 26 percent to 34,020.

Background. HUD is playing a central role in the interagency initiative to eliminate lead poisoning of the Nation's children by 2010. HUD intends to eliminate lead hazards in housing by expanding the Lead Hazard Control Program and leveraging other resources. When Congress passed the 1992 Residential Lead Hazard Reduction Act, as many as 3.8 million homes with children contained lead-based paint hazards. The Centers for Disease Control and Prevention report that nearly 1 million children ages 1 to 5 have elevated blood lead levels - amounting to about 5 percent of all children in that age group. The majority of cases involve low-income children. Exposure to lead can cause permanent damage to the nervous system and a variety of health problems, including reduced intelligence and attention span, hearing loss, stunted growth, reading and learning problems, and behavior difficulties.

HUD's Office of Healthy Homes and Lead Hazard Control (OHHLHC) provides grants to state and local government agencies to control lead hazards in privately-owned assisted and unassisted housing. The program requires grantees to employ certified personnel to collect clearance (quality control) lead-dust samples in housing to confirm that it has been made lead safe, because lead dust is the major pathway by which children are exposed to lead-based paint.

Results and Analysis. In the most current year (2001), the program completed 8,212 lead-safe units (homes), 17 percent more than its goal of 7,000. The cumulative number of lead-safe units increased by 29 percent, from 27,992 to 36,204. This performance level is a reflection of the maturation of the program, both in terms of a growing infrastructure of trained and certified contractors and the capacity of State and local governments to manage the program more effectively as a result of their increased experience and knowledge.

Estimated Housing Units Made Lead-Safe



The Lead Hazard Control Grant Program has been responsible for stimulating substantial activity in both the public and private sector to make housing lead-safe. The National Health and Nutrition Examination Survey (NHANES), conducted by the Centers for Disease Control and Prevention (CDC), is scheduled to release the next national estimate of the number of lead-poisoned children in 2004. CDC released a study covering the period 1996-99 showing a 25 percent reduction in children's blood lead levels. HUD's National Survey of Lead in Housing shows the number of units with lead paint declined from 64 million in 1990 to 38 million in 2000. Both of these reductions are due in part to the HUD Lead Hazard Control Program, as lead-based paint hazards in housing constitute the principal source of exposure for most children today. Other contributing factors include housing demolition, substantial rehabilitation, increased regulation and enforcement of Federal, state, and local lead safety laws, and improved measurement technologies.

During FY 2001, HUD outlays were $64.7 million under the Hazard Control Grant Program. Subtracting all supporting program elements such as public education, temporary relocation, blood and environmental testing and program administration, the actual per unit hazard control costs have declined from $9,440 per unit at the start of the program in FY 1993 to $4,095 for FY 1999 grantees (note that grants have a three-year duration).

The Lead Hazard Reduction program is also indirectly responsible for a large but unknown number of other homes being made lead-safe as a result of large-scale public education and contractor training programs undertaken by all of the lead hazard control grantees as an integral part of their grants. HUD's national survey of lead in housing is the best measure of this effect.

The proposed ten year plan (2000-2010) to eradicate lead paint hazards in our nation's housing was predicated upon an assumption that an average of $230 million would be expended annually in the public and private sectors to support achievement of this goal.

Related Program Evaluations. A rigorous scientific evaluation of the Lead Hazard Control Grant Program conducted between 1994 and 2000 clearly indicates that the program is effective in achieving its goals. The study, conducted by the National Center for Lead Safe Housing in conjunction with the University of Cincinnati, found that the grant program hazard control methods reduce the blood lead levels of children occupying treated units and also significantly reduces lead dust levels in the treated homes (lead dust is the principal pathway through which young children are poisoned).

Outcome Indicator 1.3.6:
The number of children under the age of 6 who have elevated blood lead levels will be less than 260,000 by 2004, down from 890,000.

Background. Approximately 890,000 children under the age of six were estimated by the Centers for Disease Control and Prevention to have elevated blood lead levels (EBL) in 1991-94. These children, especially those less than three years old, are vulnerable to permanent developmental problems because of the well-understood effect of lead on developing nervous systems. For this indicator, EBL is defined as a blood lead level exceeding 10 micrograms per deciliter (µg/dL). HUD's Lead Hazard Control Grant Program will contribute directly to reductions in the number of EBL children through the production of lead safe housing, and indirectly by developing a trained workforce for inspecting and treating homes and through grant-supported outreach/education efforts. Data on the blood-lead levels of children aged 1-5 years are being collected by the CDC through its National Health and Nutrition Examination Survey (NHANES). The survey is a representative sample of the U.S. population. A summary of preliminary data collected in 1999 was published in 2001; full results are scheduled for 2004. Strict quality control measures are followed during collection and analysis of blood samples.

Results and Analysis. The geometric mean blood lead level of a limited number of children sampled in 1999 was 2.0 µg/dL (with a 95 percent confidence interval [CI] that the geometric mean is between 1.7 and 2.3). This represents a 26 percent decline from the mean blood-lead of 2.7 µg/dL (95 percent CI = 2.6-2.9) that was reported for the survey period of 1991-1994, the most recent previous data. The 1999 sample was not large enough to provide a meaningful national estimate of the number of EBL children. CDC did report that the 1999 data showed a decline in blood-lead levels at the 75th and 90th percentiles of the distribution, suggesting there is a significant decline in the number of EBL children. Other factors that may have significant effects on this performance measure include the decline in older housing stock (e.g., from demolition and rehabilitation) and privately funded lead hazard control activities. Future strategies that will contribute towards achieving the 2004 target include full implementation of HUD's Lead Safe Housing Rule for federally-assisted housing, expansion of the Lead Hazard Control Grant Program, and leveraging private sector resources.

Programmatic Output Indicator 1.3.e:
The first 16 cooperative agreements and interagency agreements for the Healthy Homes Initiative become operational and an additional four agreements are awarded.

Background. HUD is working closely with the Centers for Disease Control and Prevention, the Environmental Protection Agency, the National Institute for Occupational Safety and Health, the National Institute of Science and Technology, and the National Institute of Environmental Health Sciences to plan and develop the Healthy Homes Initiative. Under the initiative, HUD's Office of Healthy Homes and Lead Hazard Control (OHHLHC) is awarding grants to public and private organizations and making agreements with other Federal agencies for evaluation studies and demonstration projects to address housing conditions responsible for diseases and injuries. The purpose is to learn how best to prevent diseases related to toxic agents in housing and how to control the residential environment to prevent childhood health problems, such as asthma, unintentional injuries, and developmental problems. Principal outcomes of the projects in FY 2001 were public education, demonstration of new technologies, and determining a baseline number of households with allergens, which may establish a foundation for future outcome indicators.

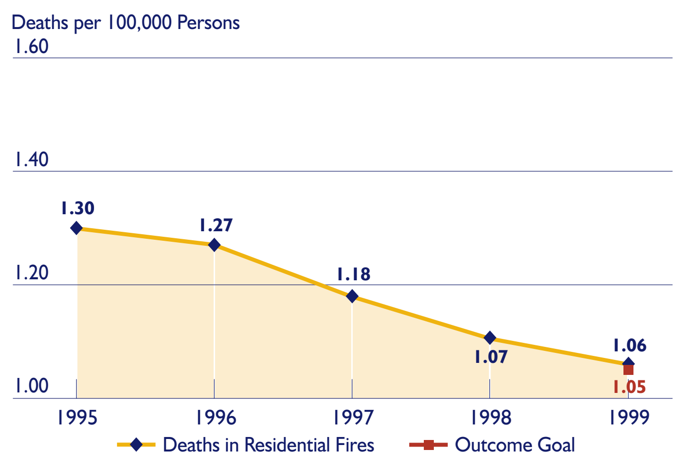
Results and Analysis. In FY 2001, the Healthy Homes program exceeded its goal, with 19 cooperative agreements and interagency agreements becoming operational since the program's inception. Eight cooperative agreements became operational during FY 2001, bringing the total number of operational cooperative agreements to fifteen. A total of 4 interagency agreements have become operational (National Institute for Standards and Technology, USDA Cooperative State Education and Extension Service, National Institute for Occupational Safety and Health, and Occupational Safety and Healthy Administration). In addition, the Office announced awards for 14 new cooperative agreements. These awards were for the FY 2001 grant cycle and were announced in October 2001, in connection with Lead Poisoning Prevention Week (October 19-26).

HUD will be evaluating the effectiveness of the Healthy Homes program by monitoring housing, environmental (and, where the grants provide, health) conditions, as well as managerial performance, using quarterly grant tracking data supplemented by on-site assessments.

Outcome Indicator 1.3.7:
The rate of death in residential fires declines by 0.02 to 1.14 fatalities per 100,000 persons by 1999.

Background. The United States currently has the third highest overall fire death rate among industrialized countries. Residential fires are the most important cause of fire-related mortality, with 81 percent of all U.S. civilian fire deaths occurring in homes in 1999. However, this indicator has been deleted for FY 2003 because HUD's span of control regarding residential fire hazards is limited. The roughly five million HUD-assisted households represent about four percent of all households. Another 7.6 million families live in manufactured housing, for which HUD regulates the design, manufacture and material specifications, with specific fire safety requirements.

Death Rate from Residential Fires



Results and Analysis. During 1999, the rate of death from residential fires declined to an estimated 1.06 per 100,000 persons. This improvement fell short of the Department's goal to decrease the rate by 0.02 deaths per 100,000. The estimate is based on 2,895 residential fire deaths in 1999 (estimated by the National Center for Injury Prevention and Control) and a U.S. population of 272,691,000 in 1999 (estimated by the Bureau of Census).

HUD contributes to declining fire death rates through regulation of manufactured housing and inspecting public and assisted housing (see indicators 1.3.f and 1.3.g). The Department's regulation of manufactured housing has been an important factor because the population living in manufactured housing historically has been disproportionately affected by fire deaths. HUD's regulatory standards have resulted in major improvements. The standards affect manufactured homes built after 1976, and deaths in manufactured home fires declined by 23 percent from 1980 to 1997.[14] External factors also interact with this measure, as many of the hazardous manufactured housing units that were put in service before HUD standards were in place have aged to the point that they are no longer in use. Behavioral factors also play an important role. Although smoke alarms cut the chances of dying in a house fire by 40-50 percent, about one-quarter of U.S. households lack working smoke alarms. The problem is more severe in manufactured housing: more than one-third of manufactured homes are found to lack functional smoke detectors when fires break out, even though homes manufactured under HUD standards are shipped with smoke detectors. Thus, an increasingly important cause of fire mortality is beyond HUD's control, being behavioral rather than a function of physical design and manufacture.

Programmatic Output Indicator 1.3.f:
The share of HUD-assisted units with functioning smoke detectors at time of inspection increases by 1 percentage point to 93 percent of public housing and 97 percent of assisted multifamily.

Background. HUD's Real Estate Assessment Center inspects the quality of public and assisted housing, including the presence of functioning smoke detectors. This indicator has been modified to track the share of units that have functioning smoke detectors and are in buildings with functioning smoke detection systems because functional smoke detection systems in common areas of a building are critical to overall fire safety. Properties are inspected at intervals of one, two or three years, depending on the results of the previous inspection. A sample of units from each development is inspected, and data are adjusted to provide a figure representative of the entire housing stock. Data reported here come from the Physical Assessment Subsystem, and represent the results of the most recent inspection for each property as of the end of FY 2001.

Results and Analysis. As of the end of FY 2001, 92.1 percent of assisted multifamily units and 90.1 percent of public housing units had functioning smoke detectors and were in buildings with functioning smoke detection systems. These data represent a 1.3 percentage point increase for multifamily assisted housing, and a 3.2 percentage point increase for public housing, both surpassing the goal of a 1 percentage point increase.

These results show that the share of HUD-assisted households who are adequately protected with smoke detectors exceeds the three-quarter share of all U.S. households who are protected. The Department's increased attention to physical conditions in the housing stock is believed to have motivated improvements in management by housing providers.

Programmatic Output Indicator 1.3.g:
The share of developments that comply with specific fire safety standards increases by 3 percentage points to 82 percent for public housing and to 81 percent for assisted multifamily housing.

Background. HUD's Real Estate Assessment Center inspects the quality of public and assisted housing, including compliance with fire safety standards. This includes the presence of fire safety certificates and other fire safety hazards other than nonfunctioning smoke detectors. These other hazards include:

- Missing Sprinkler Heads
- Missing/Damaged/Expired Extinguishers

[14] *John R. Hall, Jr., 1999. "Manufactured Home Fires in the U.S." Fire Analysis and Research Division, National Fire Protection Association. Quincy, Massachusetts.*

- Missing Exit Signs
- Blocked Egress/Ladders
- Visibly Missing Components
- Emergency/Fire Exits Blocked/Unusable.

Properties are inspected at intervals of one, two or three years, depending on the results of the previous inspection. A sample of units from each development is inspected, and data are adjusted to provide a figure representative of the entire housing stock. Data reported here come from the Physical Assessment Subsystem, and represent the results of the most recent inspection for each property as of the end of FY 2001. In FY 2002 and beyond, this indicator has been combined with the one that tracks the share of exigent health and safety deficiencies.

Results and Analysis. As of the end of FY 2001, 77.1 percent of assisted multifamily and 75.5 percent of public housing properties had no fire safety hazards excluding smoke detectors. This represents improvements of 5.2 percentage points and 3.3 percentage points respectively, surpassing the goal of a 3 percentage point increase. In addition to these results, 87.9 percent of assisted multifamily properties and 93.6 percent of public housing properties had fire safety certificates, and 93.9 percent of assisted multifamily units and 91.2 percent of public housing units had none of the previously mentioned fire safety hazards and were located in buildings with none of these hazards.

Outcome Indicator 1.3.8:
The ratio of manufactured housing stock conforming to high-wind standards to total manufactured housing in coastal zones subject to hurricanes increases by 5 percentage points from 2000 levels by 2005.

Background. This indicator relies upon data from the 2000 long-form Census, which the Bureau of Census is expected to release in time for HUD to report the baseline in 2003. The FY 2003 APP replaces this indicator with a new goal that corresponds more nearly to the Department's span of control. The replacement indicator addresses HUD's efforts to support the Manufactured Housing Consensus Committee in meeting milestones provided in the Manufactured Housing Improvement Act of 2000.

Strategic Goal 2: Ensure Equal Opportunity in Housing for All Americans

Strategic Objectives:

2.1 Housing discrimination is reduced.

2.2 Low-income people are not isolated geographically in America.

2.3 Disparities in homeownership rates among racial and ethnic groups are reduced.

Objective 2.1: Housing discrimination is reduced.

Outcome Indicator 2.1.1:
Housing discrimination declines 2 percentage points from 1989 national levels by 2001.

Background. Racial segregation is more relevant than ever as the share of the population that is minority continues to increase and as much of that growth comes from a large influx of diverse immigrant groups. Census data shows that between 1990 and 2000, geographical concentration of poverty and isolation of low-income households worsened. Studies continue to show that discrimination against minorities seeking to buy or rent homes is very common. The Housing Discrimination Study research will document and analyze housing discrimination in the United States for both the rental and sales markets. Key products from this study will include an estimate of the change in discrimination against blacks and Hispanics since 1989; current national estimates of discrimination against blacks, Hispanics, and Asian Americans and Pacific Islanders; and report cards for selected states and metropolitan areas. The final report should be available by the summer of 2002, and the results will be reported in the FY 2002 Performance and Accountability Report.

Outcome Indicator 2.1.2:
Racial and ethnic isolation declines from 1990 levels by 2000, as measured by segregation indices.

Background. Despite areas of improvement, a substantial portion of the Nation continues to display deeply entrenched patterns of economic and minority segregation. Children who grow up in these segregated, economically-depressed neighborhoods enjoy fewer opportunities than those who live in mixed-income, integrated communities. By seeking to preserve project-based assisted housing in low-poverty neighborhoods and encouraging the use of Section 8 vouchers, HUD hopes to contribute to the reversal of this trend. HUD has a contract with the Bureau of Census to analyze 1980, 1990, and 2000 census data to determine the level of racial and ethnic isolation. Results for this analysis will be available in the summer of 2002. The results will be discussed in the FY 2002 Performance and Accountability Report. This indicator has not been carried forward in the FY 2003 Annual Performance Plan, reflecting the Department's minimal span of control relative to the location decisions of the Nation's households.

Outcome Indicator 2.1.3:
The share of the population with adequate awareness of fair housing law increases.

Background. This indicator tracks the effect of fair housing enforcement activities and of public information campaigns funded by FHIP Education and Outreach grants on public understanding of their rights and responsibilities under the Fair Housing Act and other laws. During FY 2000, a contract was issued to collect baseline data for this indicator. This data was collected by a survey of the general public concerning its understanding of the fair housing laws and released by PD&R as "How Much Do We Know? Public Awareness of the Nation's Fair Housing Laws." This report highlights where HUD's activities have had the most impact in educating the public, and how FHEO should direct its resources. It also dramatizes the need for HUD to explore which educational vehicles work best and how we can better inform the public that they may file complaints with HUD's Office of Fair Housing and Equal Opportunity (FHEO).

The survey included 10 brief scenarios describing decisions or actions taken by landlords, home sellers, real estate agents or mortgage lenders. Eight of these scenarios involved conduct that, as stipulated in the scenarios, is illegal under federal fair housing law. Using this information as a baseline, HUD will perform a similar survey in FY 2004 to ascertain whether public awareness has increased during this time period.

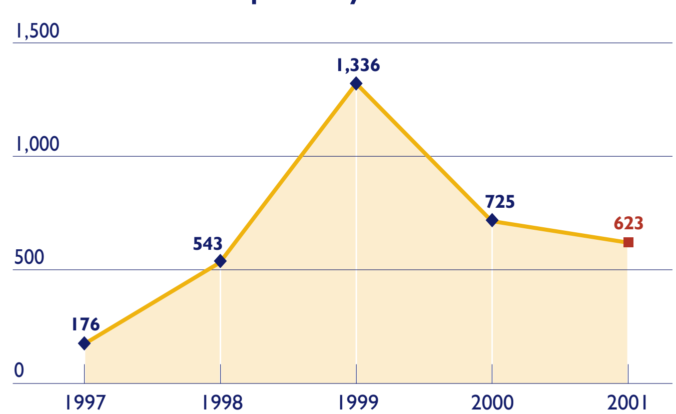
Results and Analysis. The survey showed that the average person could correctly identify five instances of unlawful conduct, and that 51 percent of the general public could correctly identify as unlawful six or more of the eight scenarios describing illegal conduct. Conversely, only 23 percent of the public knew the law in only two or fewer of the eight cases. Looked at on a scenario-by-scenario basis, a majority of the public could accurately identify illegal conduct in seven of the eight scenarios.

During FY 2001, FHIP Education and Outreach grants were awarded to 26 agencies. About 30 percent of the $12 million obligated will fund public education and outreach activities at the national level, and 70 percent at the regional, State, local or community-based level. Some education projects focus on increasing the awareness of housing providers. This is an important task because small landlords provide the majority of rental housing. About three-fourths of rental units are owned by landlords who are either households or partnerships, rather than corporations. Public awareness is also boosted by the publicity that surrounds fair housing complaints enforced by FHEO and substantially equivalent agencies.

Programmatic Output Indicator 2.1.a:
HUD clients and partners have greater ability to promote fair housing, as shown by doubling enforcement actions by December 31, 2000.

Background. The Office of Fair Housing and Equal Opportunity (FHEO) was challenged to double the number of Title VIII enforcement actions to 2,170 actions over the four years of 1997-2000, as compared with the 1993-1996 baseline period. This goal was met and surpassed by the deadline of December 31, 2000. After the goal was achieved, the focus was changed to reducing HUD Title VIII aged cases. For the FY 2002 APP a replacement performance measure builds on this milestone, and the FY 2003 APP redefines the measure to reflect closed cases more accurately as conciliation/ settlement agreements.

Fair Housing Enforcement Actions Completed by HUD Staff



Results and Analysis. FHEO met the goal of doubling enforcement actions early in calendar 2000, completing 2,780 during the 1997-2000 period. This is well above the 2,170 enforcement actions necessary to meet the goal of doubling the 1,085 enforcement actions from the 1993-1996 period.

In FY 2001, FHEO had 623 enforcement actions, which exceeded the projection. The 623 enforcement actions completed during FY 2001 comprised 4 actions by headquarters staff and 619 actions by field staff. The first three months of the FY 2001 production counted toward the doubling enforcement goal.

During FY 2002, an estimated 77 FHEO field staff are working on intake processes for fair housing complaints, and another 189 staff focus on processing the complaints, including investigation, conciliation and enforcement. Enforcement actions against parties in the complaint are one measure of output. The Title Eight Automated Paperless Office and Tracking System (TEAPOTS) provides the data used for this measure as well as for substantially equivalent agencies. The system records the resolution of each complaint.

Programmatic Output Indicator 2.1.b:
At least two new fair housing groups funded by FHIP will serve geographic areas that are not sufficiently served by public or private fair housing enforcement organizations and that contain large concentrations of protected classes.

Background. In FY 2001, 92 organizations received Fair Housing Initiative Program (FHIP) awards under the Fair Housing Initiatives Program. Thirty-six private fair housing enforcement organizations were awarded two-year Private Enforcement Initiative grants under FHIP to support investigation of alleged violations of the Fair Housing Act or substantially equivalent State and local fair housing laws. These groups will deal with housing discrimination in underserved and unserved areas, thus providing the means to better serve the immigrant populations and the economically deprived that have been victims of discriminatory housing practices. This goal has been altered in the FY 2003 APP to reflect a new emphasis on collaborative efforts between fair housing and community or faith-based organizations.

Results and Analysis. FHEO did not meet the goal of funding two new fair housing groups in unserved or underserved geographic areas during the fiscal year because meeting the goal is dependent upon the SuperNOFA schedule of activities. However, the awarding of two new fair housing groups was completed in October 2001—one month after the targeted date. The equivalent goal for FY 2000 was achieved on time.

In an attempt to ensure that future awards go out before the end of the fiscal year, FHEO is attempting to shorten the time period for negotiation between field offices and grantees from 90 days to 60 days.

Programmatic Output Indicator 2.1.c:
The number of enforcement agencies rated as substantially equivalent under the Fair Housing Act increases by five to a total of 93 agencies.

Background. Since 1980, the Department has provided financial assistance under the Fair Housing Assistance Program (FHAP) to State and local agencies administering substantially equivalent fair housing laws. After the Fair Housing Amendments Act was enacted in September 1988, all State and local agencies were required to amend their respective laws and ordinances to obtain substantial equivalency certification with the amended Federal law. The FHAP and the substantial equivalency certification process both serve to further fair housing by providing financial assistance and by encouraging State and local governments to enact and enforce legislation designed to ensure fair housing. In FY 2002 and FY 2003, HUD intends to raise the number of enforcement agencies by two each year, to a total of 97.

Results and Analysis. During FY 2001, the number of agencies certified as enforcing substantially equivalent fair housing laws was increased by five, from a revised base of 89 to 94, achieving the performance goal.

The newly certified agencies—located in Davenport, IA; Corpus Christi, TX; Topeka, KS; Lee County, FL; and Lincoln, NE—represent an increase in the Nation's capacity to provide coordinated enforcement of fair housing laws.

Programmatic Output Indicator 2.1.d:
At least 25 percent of FHAP grantees increase enforcement actions by 20 percent above FY 2000 levels.

Background. HUD provides FHAP grants to "substantially equivalent" fair housing agencies to support fair housing enforcement. Substantially equivalent agencies are those that enforce State or local fair housing laws that are substantially equivalent to the Fair Housing Act. The increase in the number of enforcement actions by these fair housing agencies boosts public awareness of fair housing laws, forces potential violators to stop discriminating, and reduces HUD's enforcement workload. This measure uses data from the Title Eight Automated Paperless Office Tracking System (TEAPOTS). This goal is revised in FY 2003 to reflect the aggregate number of complaints that FHAP grantees investigate and close.

Results and Analysis. During FY 2001, 25 percent of the fair housing agencies funded by the FHAP demonstrated substantial increases in capacity, meeting the goal for FY 2001. Of the 88 FHAP agencies, 22 successfully increased the number of enforcement actions by at least 20 percent above FY 2000 levels. During FY 2000, 36 percent of agencies achieved comparable improvements.

The FHEO hub offices provided agencies with guidance and technical assistance necessary to meet this goal. The hubs are responsible for coordinating with all HUD disciplines to support housing agencies, residents and communities in the efficient and effective delivery of HUD programs.

Programmatic Output Indicator 2.1.e.1:
The percentage of fair housing complaints aged over 100 days will decrease by 33 percentage points from FY 1999 levels to 40 percent of the HUD inventory.

Background. Through joint efforts between FHEO Headquarters and Field Offices, FHEO continues to attack housing discrimination. In FY 2001, FHEO placed a major emphasis on reducing the number of aged fair housing cases within our inventory. TEAPOTS data revealed that 82 percent of FHEO's case inventory were aged over 100 days. As a result, strict measures were put in place and a more aggressive target was established to take immediate action in reducing this number. In FY 2002, HUD intends to decrease the number of aged cases by an additional five percentage points. The FY 2003 APP builds upon the FY 2002 goal by reducing the proportion of aged cases by an additional 10 percentage points.

Results and Analysis. At the end of FY 2001, 37 percent of the cases in HUD's inventory were aged over 100 days. This result is 36 percentage points below the FY 1999 baseline of 73 percent, surpassing the goal of a 33 point reduction. In addition, FY 2001 performance represents a dramatic decline from the 82 percent of cases aged at the end of FY 2000.

FHEO staff worked diligently to complete these cases, ensuring fair and impartial judgment to parties involved. By meeting the goal of doubling enforcement actions early in 2000, HUD was able to reallocate more resources to achieving this goal. The result of this accomplishment played a key role in reassuring the public that if a fair housing complaint is filed then action will be taken.

Programmatic Output Indicator 2.1.e.2:
The percentage of fair housing complaints aged over 100 days will decrease by 10 percentage points from FY 2000 levels among substantially equivalent agencies.

Background. Efficient enforcement processing by substantially equivalent agencies is an important dimension of fair housing enforcement under the Fair Housing Assistance Program. This indicator tracks the proportion of aged fair housing complaints for substantially equivalent agencies, including time for determination of jurisdiction and for conducting investigations and conciliation.

Results and Analysis. During FY 2001, the Department's fair housing partners failed to meet this goal. Cases aged over 100 days represented 69.3 percent of all open cases for FHAP agencies, an increase of 0.9 percentage point above the FY 2000 total of 68.4 percent. HUD will assist FHAP organizations in reducing their aged case backlog for FY 2002. This will be accomplished through the monitoring, training and technical assistance that HUD will provide to the substantially equivalent agencies.

Outcome Indicator 2.1.4:
The share of newly constructed buildings that are accessible to persons with disabilities increases.

Background. In FY 2000, Congress directed HUD to develop a plan to educate users and providers of multifamily housing about the requirements of the Fair Housing Act regarding accessible housing. HUD implemented this directive through the Project on Accessibility Training and Technical Guidance Contract (PATTG). This contract provides funds to disability advocacy groups and members of the housing industry to jointly design and deliver training and technical assistance on the accessibility requirements of the Fair Housing Act.

In FY 2001, a data collection on the conformity of multifamily buildings to the fair housing accessibility provisions was completed. The report, "Assessment of Multifamily Buildings' Conformity with Accessibility Provisions," will be available by the fall of 2002. It will assess whether newly constructed multifamily rental properties are in compliance with the housing accessibility requirements of the Fair Housing Act. This study will also provide a national estimate of the extent to which new multifamily housing conforms to HUD's various education and enforcement activities in this area. HUD has designed the Project for Accessibility Training and Technical Guidance to further educate architects, builders, developers, and local building code officials and others on the Fair Housing Act's accessibility requirements.

Objective 2.2: Low-income people are not isolated geographically in America.

Outcome Indicator 2.2.1:
Income isolation declines from 1990 levels by 2000, as measured by a segregation index.

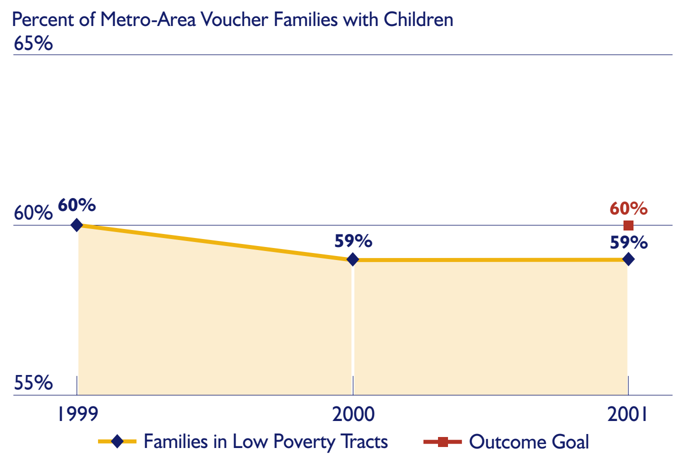
Background. During FY 2001, HUD engaged the Bureau of Census to validate the use of income segregation indices for assessing HUD programs and to prepare baseline estimates and performance estimates. This indicator relies upon data from the 2000 long-form Census, which is expected to become available during 2002. HUD is working with the Bureau to develop the baseline for reporting during FY 2003, although a number of methodological issues could block this effort.

Outcome Indicator 2.2.2:
Among families with children that receive Section 8 certificates or vouchers, the share that live in census tracts with poverty rates below 20 percent increases by 1 percentage point annually to 62 percent, or 880,000 households.

Background. Children who live in pockets of poverty often lack the opportunities enjoyed by others who live in mixed-income neighborhoods. This indicator tracks the share of voucher-assisted families with children who use their vouchers to provide better opportunities for their children by selecting housing outside areas of poverty concentration. Over the three-year period 1997-1999, the national poverty rate averaged 12.6 percent. The Census Bureau has defined census tracts or block numbering areas where at least 20 percent of residents are poor as "poverty areas."

Results and Analysis. During FY 2001, the share of voucher-assisted families with children living in census tracts with low levels of poverty was 59 percent, missing the FY 2001 goal of increasing the share by one percentage point. This continues a trend that was reflected in FY 2000 when the share of voucher-assisted families with children living in census tracts with low levels of poverty was also 59 percent. The majority of voucher-assisted families with children continue to use their vouchers outside areas of poverty concentration, but the share living in census tracts with poverty below 20 percent decreased from 60 percent in FY 1999. This measure shows that the geographic distribution of housing choice voucher households has changed little over the last several years, and many observers believe that difficult market conditions are impeding progress in achieving this objective.

Families with Children and Vouchers Who Live in Low-Poverty Tracts



Outcome Indicator 2.2.3:
The share of households living in public housing family developments that have mixed incomes increases by 3 percentage points.

Background. This is a new indicator that was not tracked in FY 2000. The FY 2000 baseline was proposed to be set in FY 2001. This indicator supports the guidelines of the Quality Housing and Work Responsibility Act to encourage income mixing in public housing by setting rents in a way that attracts and retains working families and helps existing families to become self-sufficient. Mixed family developments are defined as public housing developments where (1) at least 75 percent of households are families with children, and (2) extremely-low-income households constitute no fewer than 20 percent nor more than 70 percent of households in the development.

Results and Analysis. Preliminary analysis of data from the Multifamily Tenant Characteristics System in FY 2001 indicated that about 13 percent of family developments larger than 150 households meet the criteria of mixed family developments.[15] The baseline for this indicator will be determined in FY 2002.

[15]Form HUD-50058 reporting was changed from the Multifamily Tenant Characteristics System to the Public and Indian Housing Information Center (PIC) during FY 2001. Disruptions during the transition period prevented PHAs from submitting complete household records in timely fashion during the latter half of FY 2001. The May 2001 extract was judged to provide the most reliable data at the present. This preliminary estimate for FY 2001 may be revised if substantial numbers of additional FY 2001 records are submitted to PIC during FY 2002.

Objective 2.3: Disparities in homeownership rates among racial and ethnic groups are reduced.

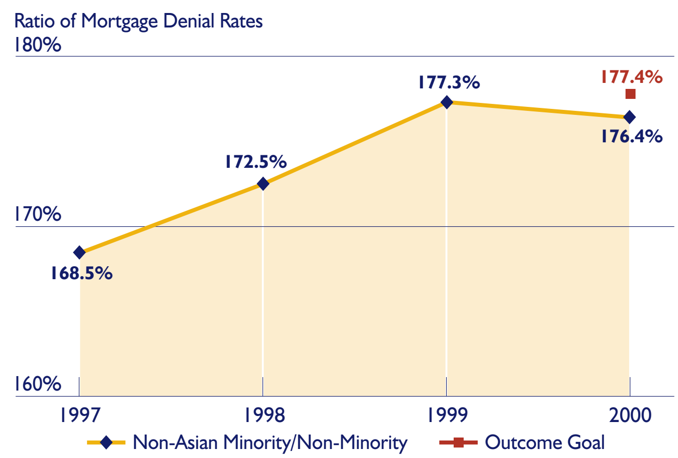
Outcome Indicator 2.3.1:
The ratio of homeownership rates of minority and nonminority low- and moderate-income families with children increases by 0.4 percentage points to 77.0 percent.

Background. One of HUD's central objectives is to remove homeownership barriers and increase homeownership among minorities. Homeownership rates are more susceptible to policy intervention among renters who are marginally creditworthy, discouraged by discrimination or unaware of the economic benefits of homeownership. This indicator, which tracks progress in reducing these barriers to homeownership among racial and ethnic minorities, relies upon data from the 2001 American Housing Survey, which will be completed in time to report in the FY 2002 Performance and Accountability Report. The FY 2003 goal is to increase the ratio by 0.4 percentage points from calendar year 2001 levels by calendar year 2003.

Outcome Indicator 2.3.2:
The difference in home purchase mortgage disapproval rates between non-Asian minority and other applicants decreases by 1 percentage point in 2000.

Background. This indicator tracks home purchase mortgage disapproval rates of minorities that have had limited access to traditional housing markets-African Americans, Hispanics, Native Americans, and other minorities except Asians-and compares them to disapproval rates of non-Hispanic white applicants. Manufactured housing loans are excluded from the measure. Because HUD's span of control is very limited relative to individual variables and external factors, this indicator has become a tracking indicator, with no performance goal for FY 2003.

Minority/Non-Minority Ratio of Mortgage Denial Rates



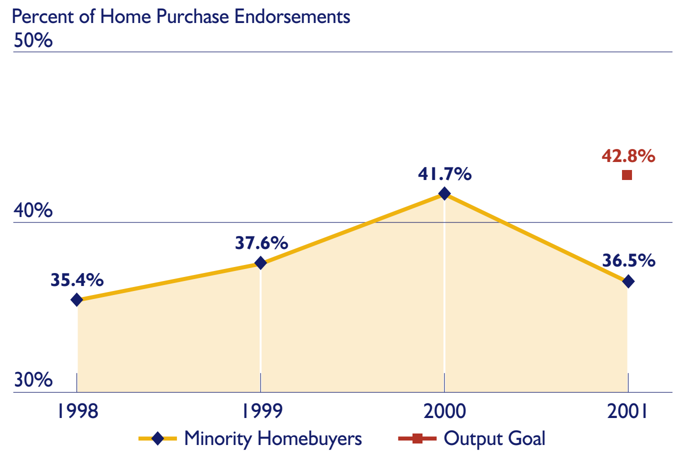
Results and Analysis. The most recent data available show that during calendar year 2000, minority applicants other than Asians were denied mortgages at a rate 76.4 percent higher than the denial rate for non-minority applicants. (Denial rates for Asian/Pacific Islanders as a group are not substantially different from those of non-minorities.) Because lower denial rate ratios are evidence of more equal outcomes, the ratio of 176.4 percent is practically identical to HUD's goal of 176.3 percent. The improvement in 2000 reversed a trend of worsening disparities in the late 1990s.

HUD strives to improve the chances of minority applicants by endorsing more mortgages for minority households and improving the fairness and efficiency of FHA mortgage lending through greater use of its standardized TOTAL mortgage scorecard. The Department currently is not able to quantify the impact of these efforts on denial rates. A substantial portion of the difference in denial rates between minority and non-minority applicants-but not all of the difference-can be explained by finance- and credit-related attributes of the applicants. The state of the economy thus affects denial rates by causing differential changes in financial stability of various groups. This measure also has statistical variance resulting from the number of variables used in its computation. The data are collected from lenders under the Home Mortgage Disclosure Act.

Programmatic Output Indicator 2.3.a:
The share of minority homebuyers among FHA home purchase endorsements increases by 1 percentage point to 39.1 percent.

Background. FHA is a major source of mortgage financing for minority as well as lower income homebuyers. Increasing the number of FHA endorsements for minority homebuyers will help reduce the homeownership gap between whites and minorities and increase the overall homeownership rate. Additional increases of 1 percentage point are targeted for FY 2002 and FY 2003.

Share of Minority Homebuyers Among FHA Home Purchase Endorsements

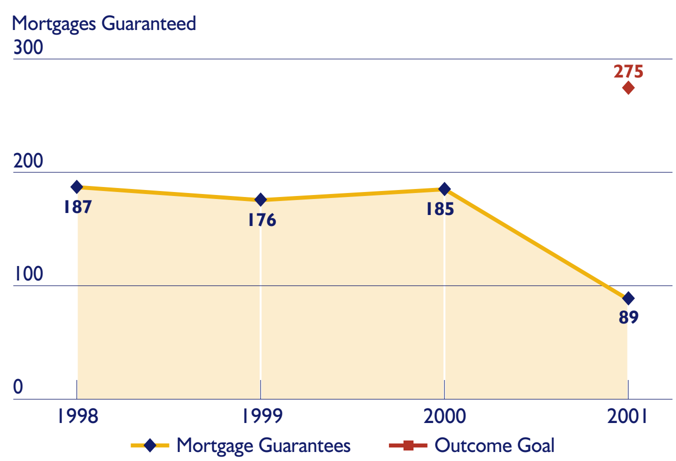


Results and Analysis. In FY 2001, minority homebuyers accounted for 36.5 percent of FHA home purchase endorsements, a decline from the FY 2000 level of 41.7 percent, and missing the goal of a 1 percentage point increase. The FY 2001 level is consistent with the long-term trend for this measure. It appears that the FY 2000 level is an anomaly, possibly the result of macroeconomic factors that reduced the overall level of endorsements in FY 2000. To improve performance, HUD is continuing marketing and outreach efforts, and has proposed increased resources for Housing Counseling efforts.

Programmatic Output Indicator 2.3.b:
Section 184 mortgage financing is guaranteed for 275 new Native American homeowners during FY 2001.

Background. The Indian Housing Loan Guarantee Fund (Section 184) was established to provide the first opportunities for Native American families living on federally recognized Reservations to secure a loan for homeownership. Section 184 loan guarantees can be used to purchase, construct or rehabilitate single-family homes. The targets for FY 2002 and FY 2003 are 180 and 200, respectively.

Section 184 Home Mortgages Guaranteed for Native Americans

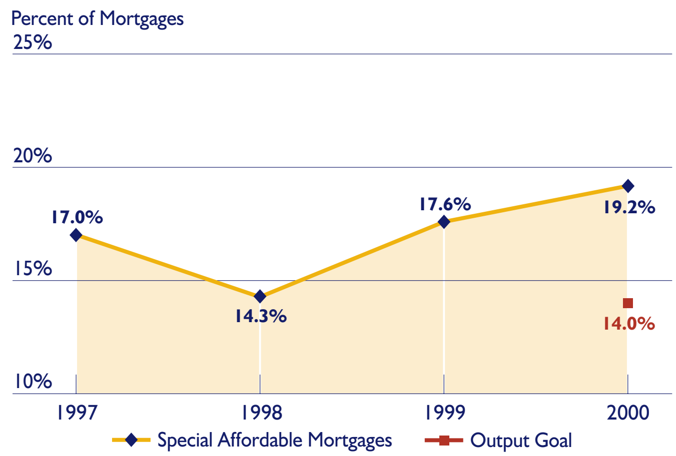


Results and Analysis. In FY 2001, HUD guaranteed mortgage financing for 89 Native American homeowners under the Indian Housing Loan Guarantee Fund, which is substantially below the goal of 275. The FY 2001 goal was established on the basis of the economic conditions that prevailed. However, extremely high unemployment rates, high dependency upon welfare programs, discouraging social problems and an almost complete absence of economic growth seriously impacted the number of Section 184 Indian Home Loan Guarantees made in FY 2001. There is no uncomplicated way to set a goal for the Indian Housing Loan Guarantee Fund program due to the ever-changing economic conditions that prevail on Indian Reservations. However, it is important to note that each IHLG loan made in any fiscal year is an important milestone in what has been a non-existent homeownership environment for Native American families.

Programmatic Output Indicator 2.3.c:
Fannie Mae and Freddie Mac meet or surpass HUD-defined targets for special affordable mortgage purchases.

Background. HUD defines targets for Fannie Mae and Freddie Mac in several areas, including special affordable mortgage purchases. Mortgages qualify as special affordable if they support homes for very-low-income households (with incomes up to 60 percent of area median income) or for low-income families (up to 80 percent of area median income) located in low-income areas. Low-income areas are defined as (1) metropolitan census tracts where the median income does not exceed 80 percent of area median income and (2) nonmetropolitan census tracts where median income does not exceed 80 percent of the county median income or the statewide metropolitan median income, whichever is greater. Data reported for this indicator are calendar year and have a one-year lag because they come from audit reports.

Fannie Mae Performance Relative to Special Affordable Target

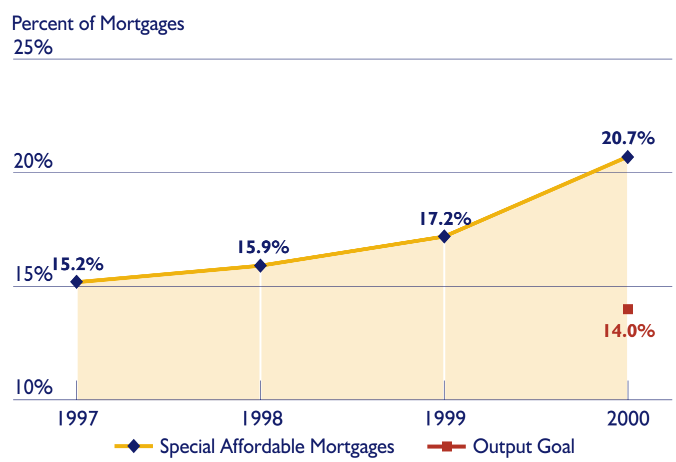


The calendar year 2000 goal for special affordable mortgage purchases established in the FY 2001 APP was 18.0 percent, corresponding to the interim rule. The goal for 2000 was reduced to 14 percent in the final rule. Beginning in calendar year 2001, the target has been increased to 20 percent. New counting rules also apply for measures of GSE performance beginning with calendar year 2001.

Results and Analysis. In calendar year 2000, Fannie Mae and Freddie Mac both surpassed the 14 percent target that HUD established for special affordable mortgage purchases. Fannie Mae achieved 19.2 percent and Freddie Mac achieved 20.7 percent. Both GSEs would have achieved the interim target of 18 percent as well.

The increase in special affordable mortgage purchases by Fannie Mae can be attributed to increases in the special affordable share of single-family mortgage purchases as well as an increase in multifamily units as a share of its goal-eligible units. Freddie Mac's larger increase is explained primarily by an increase in the special affordable share of its single-family purchases.

Freddie Mac Performance Relative to Special Affordable Target



Strategic Goal 3: Promote Self-Sufficiency and Asset Development by Families and Individuals

Strategic Objectives:

3.1 Homeless families and individuals become self-sufficient.

3.2 Poor and disadvantaged families and individuals become self-sufficient and develop assets.

Objective 3.1: Homeless families and individuals become self-sufficient.

Outcome Indicator 3.1.1:
The share of those homeless persons leaving HUD transitional housing who move to permanent housing increases by 1 percentage point to 37 percent.

Background. The ultimate goal of homeless assistance is to help homeless families and individuals achieve permanent housing and greater self-sufficiency. To coincide with this goal, transitional housing programs funded by HUD help prepare homeless people for permanent housing. This measure tracks the percentage of people who leave transitional housing and move into any kind of permanent housing, whether it is HUD-supported or not.

Data for this indicator are from HUD's Annual Progress Report (APR). Because projects begin annual operations at different times, the data reflect projects that ended their operational year during calendar year 2001. The APR was revised in 2000 and is operational for 2001. The changes in the new APR allow for more detailed reporting on this and other APR-based indicators, which includes distinguishing between the number of adults and the number of children entering projects throughout the 12-month period. This indicator will remain in place for 2002. However, beginning in FY 2003, HUD will measure the actual number of persons who move from HUD transitional housing to permanent housing.

Results and Analysis. At the time this report was due, data had been entered for APRs of 31 percent of the projects operating during 2001. Based on this sample, it is estimated that 64 percent of homeless adults who left HUD's transitional housing moved into permanent housing during calendar year 2001. This is a substantial increase over the estimated results, based on APRs received, of 34 percent for calendar year 1999 and 36 percent for calendar 1998. Accordingly, the preliminary results indicate that HUD exceeded the goal of a 1 percentage point increase.

The ability of the new APR to collect more accurate information on adults and children helps explain a significant portion of the increase from 34 to 64 percent, which more truly represents the impact of HUD transitional housing programs. The preliminary 2001 figure is based on a nonrandom sample, but the earlier estimates were vulnerable to significant non-reporting bias. When a larger, more representative 2001 sample is available for this indicator during 2002, HUD will be able to determine if an adjustment to the reported figure is needed. If a larger or smaller figure for 2001 results, it will be reported in the 2002 performance report.

Outcome Indicator 3.1.2:
The number of formerly homeless persons who move into HUD McKinney-funded permanent housing increases.

Background. This is a new performance indicator for FY 2001, added to underscore the importance of providing permanent housing for homeless persons. Permanent housing provides long-term stability that is essential to self-sufficiency. Supportive services are also provided via the Continuum of Care (CoC) to address the various types of problems homeless persons face. The new Annual Progress Report (APR) is the source of this indicator's data.

Results and Analysis. At the time this report was due, data had been entered for APRs of 31 percent of the projects operating during 2001. Extrapolating from this sample and adjusting the figure to reflect that the sample may not be statistically representative, HUD established a baseline for this new measure. It is estimated that 30,000 homeless persons moved into HUD McKinney-funded permanent housing during 2001. This 2001 baseline will be used to measure whether an increase takes place in 2002.

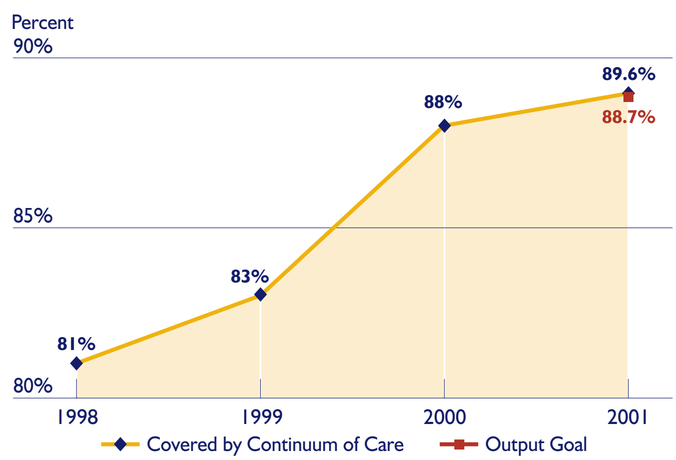
In an effort to help move people who are homeless into permanent housing, HUD has encouraged communities to use HUD funds for permanent housing in national broadcasts, the NOFA, the application and by providing bonuses to CoCs that propose new permanent housing projects as their top priority. Of the $948 million awarded in 2001 for CoC programs, $401 million, or 42 percent, was awarded to permanent housing projects. These permanent housing funds represent 901 new and renewal projects.

Programmatic Output Indicator 3.1.a:
The share of the population living in communities with a Continuum of Care system increases by 0.5 percentage point to 84.5 percent.

Background. HUD encourages homeless assistance providers in each community to work together to submit a single application describing their resources and needs. This "Continuum of Care" process helps ensure that communities take a comprehensive approach to addressing the problem of homelessness and closing their service gaps. In FY 2002, HUD will continue to increase the share of the population living in communities with a CoC system by 0.5 percent. Because of the matured success in the development of Continua of Care, HUD will no longer report on this measure beginning in FY 2003.

Results and Analysis. In FY 2000, the share of the U.S. population living in communities with a CoC system increased sharply to 88.2 percent, exceeding the goal of 84 percent. In FY 2001, 89.6 percent of the total U.S. population lived in communities within a CoC system. This is an increase of 1.4 percentage points over the FY 2000 result, and thus exceeds the goal of a 0.5 percentage point increase. Through national broadcasts and other means, 11 additional CoCs were created in 2001, increasing the total number of CoC's nationwide from 446 in FY 2000 to 457 in FY 2001.

Share of Population in a Continuum of Care



Programmatic Output Indicator 3.1.b:
The ratio of outside funds leveraged by HUD homeless funds remains at or above 3:2.

Background. When grantees submit applications for funding, they provide information regarding funds that will be leveraged by HUD homeless assistance funds. However, in many communities, HUD only funds a portion of applications submitted and many at reduced funding levels. For these communities, it is difficult to know with certainty whether all of the leveraging funds claimed in CoC applications, or only a portion, are actually used for leverage corresponding with funded projects. In FY 2002, this performance measure has been eliminated because of these technical difficulties of reporting.

Results and Analysis. In FY 2000, $900 million in CoC funds were awarded and applicants in funded CoCs committed to leveraging $2.07 billion. In FY 2001, $947 million in CoC funds were awarded and applicants in funded CoCs committed to leveraging $2.04 billion. The ratio for FY 2001 is 4.2 to 2, which well exceeds the goal of a 3 to 2 ratio.

Programmatic Output Indicator 3.1.c:
The number of HUD-funded transitional housing beds increases.

Background. This performance goal relates to the number of new transitional housing beds funded during the year. It does not include the significant number of existing transitional housing beds HUD supports. Beginning in FY 2002, HUD will track the number of people served by HUD-funded transitional housing to better reflect the overall impact of transitional housing funds. Data for the current indicator is obtained from funded CoC applications submitted to HUD's Special Needs Assistance Programs Office. The new measure will be based on actual performance, as reported in the APR, as opposed to proposed activity in funded applications.

Results and Analysis. In FY 2000, HUD funded 3,345 new transitional housing beds linked to supportive services. In FY 2001, HUD funded 5,020 new transitional housing beds linked to supportive services. This is an increase of 1,675 transitional housing beds in FY 2001. HUD has met the goal of increasing the number of HUD-funded transitional housing beds. In FY 2001, $75.4 million was awarded through the competitive CoC process to support these new transitional housing beds and the services provided to residents while living in transitional housing.

Programmatic Output Indicator 3.1.d:
At least 90 percent of EZs and ECs achieve local goals in serving homeless persons.

Background. The Empowerment Zone and Enterprise Community program is designed to promote economic and community development in distressed communities. HUD has designated 89 Empowerment Zones (EZs) and Enterprise Communities (ECs). HUD measures their performance in seven areas including serving homeless persons. Data represent the sum of outputs taken from plans that are 95 percent completed divided by the sum of projected outputs for all plans. A more detailed discussion of EZ/EC results is included under Indicator 4.2.b.5.

Results and Analysis. In FY 2001, 88 percent of EZ and EC projects met goals with respect to serving homeless persons. This level misses the target of 90 percent, but surpasses the previous year's level of 83 percent.

Objective 3.2: Poor and disadvantaged families and individuals become self-sufficient and develop assets.

Outcome Indicator 3.2.1:
Increase the percentage rate of earnings gained by employed adult TANF recipients or former recipients over a six-month period by 1 percentage point to 28 percent.

Background. This indicator is shared with the Department of Health and Human Services (HHS), and the measure is tabulated from state and local administrative data by the Administration for Children and Families at HHS. The indicator measures the change in earned income among former recipients of Temporary Assistance for Needy Families (TANF) six months after they become employed. The measure was adopted because there has been substantial historical overlap between the welfare population and residents of public and assisted housing. At the time TANF was authorized, about one-quarter of welfare households had housing assistance and about one-quarter of assisted households received welfare. HUD has dropped this indicator from the FY 2003 APP because the outcome is substantially beyond our span of control. The Department continues to measure the extent of transitions from welfare to work in assisted housing programs, and to work with HHS to research the impacts of welfare reform and the effectiveness of various strategies to promote self-sufficiency. Because of the uncertainty about HUD's contribution to this indicator, this indicator will not be reported beyond FY 2002.

Results and Analysis. The calendar year 2000 data needed to report this measure have not been released by HHS, but are expected to be available for reporting next year. In calendar year 1999, the increase in quarterly earnings of newly employed TANF recipients was 22.0 percent over six months, comparing a base quarter with the second subsequent quarter. The 1999 result was down slightly from the average 1998 gain of 23.1 percent.

TANF caseloads have declined dramatically in recent years, and there is evidence that the remaining TANF population faces more obstacles to stable, high quality employment. As the economy slipped into recession in March 2001, many former TANF recipients have lost their jobs and have not been able to find new employment-and much less jobs with a higher wage level. Given these factors, it is increasingly difficult to improve or even maintain the rate of earnings increase. Various States have differing approaches to promote work by TANF recipients, ranging from extensive education opportunities to mandatory work participation. The evidence that is developing about which approaches are more effective is undergoing continuing analysis.

Outcome Indicator 3.2.2:
The share of recipients of welfare-to-work vouchers who hold jobs at time of annual recertification increases.

Background. This indicator tracks the status of recipients of Welfare to Work (WtW) vouchers, which were appropriated in FY 1999 and awarded in FY 2000. The WtW voucher program was a new initiative that required coordination of PHAs and welfare agencies. As is often the case with new programs, startup was slow and not all WtW vouchers were issued and leased in FY 2000. Further, the changes that will enable HUD to track the WtW vouchers through MTCS (now PIC) could not be implemented until June 2001. As a result, HUD will not be able to establish the baseline for this goal until FY 2002, the first year of PIC reporting that will cover all of the recipients of WtW vouchers for a full year.

Programmatic Output Indicator 3.2.a:
The lease-up rate of welfare-to-work vouchers reaches 50 percent in FY 2000 and 100 percent in FY 2001.

Background. **In FY 1999 Congress appropriated funding for 50,000 Welfare to Work (WtW) vouchers,** the first appropriation of new vouchers since FY 1994. WtW vouchers required PHAs to establish new administrative procedures and partnerships between housing and welfare agencies. To ensure speedy issuance and lease-up of WtW vouchers, HUD developed a goal of having 50 percent of vouchers leased by the end of FY 2000, and 100 percent leased by the end of FY 2001. The new form HUD-50058, which could for the first time identify families participating in the WtW voucher program, was not implemented until June 2001. Therefore, leasing information has been provided to HUD through an independent consultant that was awarded a contract to provide technical assistance to PHAs administering the WtW voucher program.

Results and Analysis. As of September 30, 2001, all WtW vouchers had been issued to families and 44,858 WtW vouchers, or 90 percent, were reported as leased. The lease-up of WtW vouchers is affected by many of the same factors that affect the overall voucher lease-up rate, which are discussed in Indicator 1.2.c.

Programmatic Output Indicator 3.2.a.5:
At least 90 percent of EZs and ECs achieve local goals in providing social services.

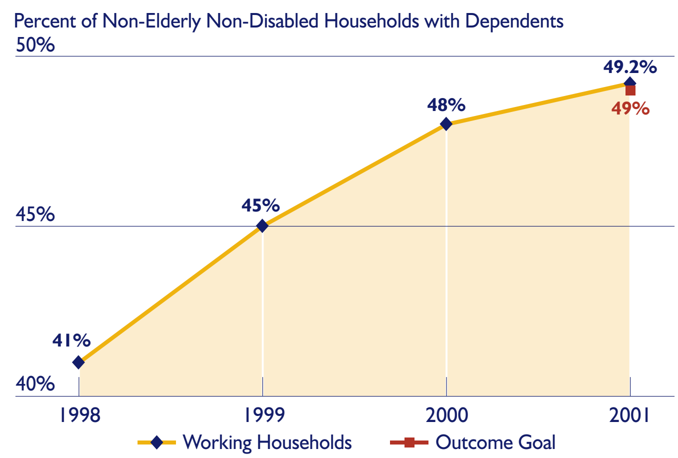
Background. HUD has designated 89 Empowerment Zones (EZs) and Enterprise Communities (ECs). HUD measures their performance in seven areas including providing social services. Data represent the sum of outputs taken from plans that are 95 percent completed divided by the sum of projected outputs for all plans. A more detailed discussion of this measure is included under Indicator 4.2.b.5.

Results and Analysis. In FY 2001, 88 percent of EZ and EC projects met goals with respect to providing social services. This level misses the target of 90 percent, but is substantially higher than the previous years level of 73 percent.

Outcome Indicator 3.2.3:
Among public housing households with children, the share that derive more than 50 percent of their income from work increases by 1 percentage point to 47 percent.

Background. HUD's goal is to help many residents of public and assisted housing increase their self-sufficiency to the point that they no longer need housing assistance and are able to become homeowners if they choose. The Department has several efforts underway to promote work participation in public housing-both by admitting higher income families and by helping current residents find stable employment. The data used for this measure consist of the most recent income certification records for non-elderly, non-disabled public housing households that have been submitted by PHAs at a point in time, usually the end of HUD's fiscal year. PHAs are required to recertify household incomes annually. The goal for FY 2002 and FY 2003 is to increase the number by one percentage point per year.

Public Housing Households with Dependents Earning More than Half of Income by Working



Results and Analysis. The most recent available data[16] show that in May 2001, among non-elderly non-disabled households with dependents that resided in public housing, 48.8 percent were earning at least half of their income by working. This represents a 0.8 percentage point increase over 8 months. Extrapolating the increase to the end of FY 2001 would yield a result of 49.2, which exceeds the 49 percent goal for FY 2001.[17] The trend suggests that the rapid gains in employment experienced during recent years may be slowing.

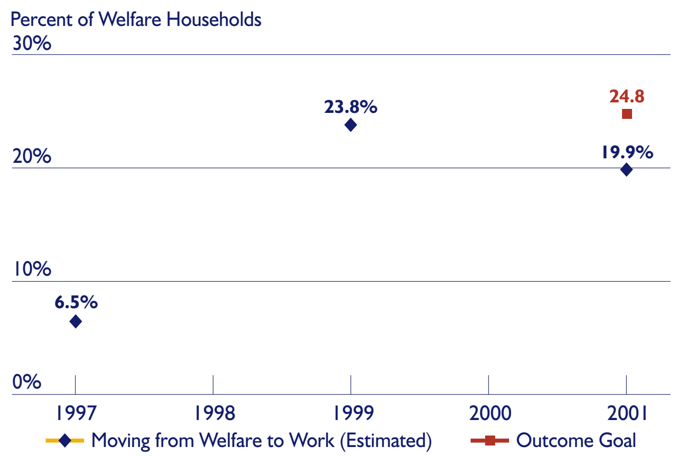
Throughout the FY 2001 performance period, the Department has been actively promoting work through its policies and PHA activities. These strategies included disregarding earned income when calculating rents, providing escrow accounts through the Family Self Sufficiency program, and providing employment-related supportive services. Relatively strong economic conditions during early FY 2001 and time limits under TANF also continue to influence work participation in public housing. The slowing of the economy during FY 2002 may retard such gains in the near future. During FY 2002, HUD is considering a variety of strategies to counteract such external factors and help families move up and out of public housing.

Outcome Indicator 3.2.4:
The share of welfare families that move from welfare to work each year while residing in public housing increases by 1 percentage point to 30 percent.

Background. HUD wants housing agencies to help public housing residents move from welfare to work by helping families obtain needed services and by building work incentives into the administration of public housing programs. PHAs operate a variety of self-sufficiency programs that promote work. Under the Quality Housing and Work Responsibility Act, housing agencies are required to use their best efforts to coordinate with local welfare agencies.

This measure compares the year to year changes in the primary source of income of individual public housing households, as recorded in income certification records submitted by PHAs to PIC (formerly MTCS). Families are identified as moving from welfare to work if welfare was their primary source of income in the first period and earnings were their primary source of income in the second period. Welfare or wage income is defined as the primary income source when it exceeds 50 percent of total family income. For FY 2003, this indicator is being replaced by a measure of the change in average earnings of non-elderly non-disabled households in public housing, assisted multifamily and Housing Choice Voucher programs.

Estimated Annual Movement from Welfare to Work in Public Housing



Results and Analysis. During the eight months between September 2000 and May 2001[18], 13.2 percent of welfare households in public housing moved to work. If the same progress were made over the

---

[16] Form HUD-50058 reporting was changed from the Multifamily Tenant Characteristics System to the Public and Indian Housing Information Center (PIC) during FY 2001. Disruptions during the transition period prevented PHAs from submitting complete household records in timely fashion during the latter half of FY 2001. The May 2001 extract was judged to provide the most reliable data at the present. This preliminary estimate for FY 2001 may be revised if substantial numbers of additional FY 2001 records are submitted to PIC during FY 2002.

[17] The target of 49 percent represents an increase of 1.0 percentage points from the FY 2000 result of 48.0 percent. Although the FY 2000 result shown here has been revised downward from the 53 percent reported last year, it remains substantially better than the FY 2000 performance goal of 45 percent. The cause of the discrepancy has not been determined, but the FY 2000 and FY 2001 results shown here use consistent methodology and are judged to be accurate.

[18] See footnote under Indicator 3.2.3.

entire fiscal year,[19] an estimated 19.9 percent would have moved to work on an annualized basis. This result missed the goal of a 1 percentage point improvement from the previous annualized estimate of 23.8 percent during FY 1999. (This revised baseline is based on 27.8 percent of welfare households in public housing observed moving to work between May 1998 and July 1999).

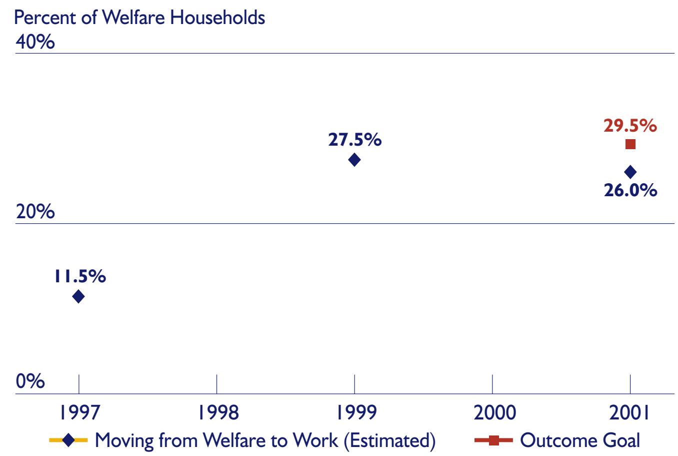
Although the rate of movement from welfare to work in public housing slowed from the FY 1999 peak, the rate continues to exceed-by a factor of three-the estimated 6.5 percent of welfare households moving to work annually when TANF was enacted (based on 13.0 percent observed moving to work between 1995 and 1997). The pattern of slowing suggests that as welfare reform matures, remaining welfare participants may be having greater difficulty replicating the successes of the initial cohorts. They may face more persistent barriers to self-sufficiency or greater difficulty in obtaining entry-level jobs in FY 2001. PHAs have been actively promoting work through earned income disregards, Family Self-Sufficiency accounts, and employment-related supportive services. HUD is considering additional strategies to improve self-sufficiency efforts, with the long-term goal of helping families achieve homeownership or obtain affordable rental housing of their own.

Outcome Indicator 3.2.5:
The share of welfare families that move from welfare to work each year while assisted by tenant-based Section 8 increases by 2 percentage points to 34 percent.

Background. The Housing Choice Voucher program, or tenant-based Section 8 rental assistance, serves as one of HUD's best tools to help families escape welfare dependency because it gives families freedom to move to neighborhoods that are close to jobs. In addition, many housing agencies administering Housing Choice Vouchers have implemented Family Self-Sufficiency programs to help families become economically independent. This indicator tracks work participation outcomes for welfare families assisted by vouchers, as measured by the percentage of families moving from welfare as primary income source to earnings as primary income source while they are assisted. Primary income source refers to welfare income or wage income exceeding 50 percent of total income. For FY 2003, this indicator is being replaced by a measure of the change in average earnings of non-elderly non-disabled households in public housing, assisted multifamily and Housing Choice Voucher programs. The new measure will include all residents of these HUD programs, not just those who receive welfare.

Results and Analysis. During the eight months between September 2000 and May 2001[20], 17.3 percent of welfare households who remained in the voucher program moved to work. If the same progress were made over the entire fiscal year, an estimated 26.0 percent would have moved to work on an annualized basis (see previous footnote). This result misses the goal of a 2 percentage point increase and is actually a decline from the annualized baseline of 27.5 percent during FY 1999 (based on 32.1 percent of welfare households in the voucher program observed moving to work between May 1998 and

Estimated Annual Movement from Welfare to Work in Voucher Program



[19] *To ensure comparability with previous results, estimates are annualized by dividing by the number of months in the period measured and multiplying by 12 months. May 2001 data were used to determine FY 2001 results because of incomplete data at the end of FY 2001 resulting from delayed implementation of PIC reporting. See first footnote for Indicator 3.2.3.*

[20] *See footnote under Indicator 3.2.3.*

July 1999). The trend mirrors that of public housing: transitions to work are up substantially from the early days of welfare reform under TANF, but are down slightly from FY 1999 levels. The decline is somewhat less than in the public housing program, suggesting that the geographic flexibility provided by the voucher program may make it more resilient to downturns, or that it may serve a different population. Similar external factors apply-the changing distribution of needs of different cohorts of welfare households and weakening job markets doubtless play a significant role.

The Department is implementing a number of strategies to improve movement from welfare to work in the Housing Choice Voucher program. Because the FSS program is such an important tool for moving families to employment, the Department made $45 million available in FY 2001 to pay the salaries of FSS program coordinators for voucher FSS programs. The FSS program coordinators assure that program participants are linked to the supportive services that they need to achieve and maintain self-sufficiency. HUD provides no additional funding for services, and the cost for salaries of FSS program coordinators is minimal, considering the value of services and other resources that the coordinators are able to leverage for their programs from public and private sources.

HUD also continues to provide extensive technical assistance to housing agencies that received funding for the Welfare-to-Work (WtW) voucher program. Participating PHAs must coordinate with welfare agencies to provide rental assistance to families eligible for TANF. Through its website and a series of teleconferences and other activities, HUD is fostering the development of strong local WtW voucher programs that promote and support work. Many PHAs are successfully combining FSS and WtW voucher program activities.

HUD will continue to make information on successful WtW and FSS program models and practices available to all PHAs that administer vouchers to help them develop strategies for moving more families into paid employment and supporting continuation of that employment. In spite of the recent job losses among many newly employed former welfare participants, HUD believes that these long-term strategies will be important to strengthening the job skills and employment success of its families. As families increase employment income and need little or no rental assistance, more money will be available to help additional families make the transition to work.

Outcome Indicator 3.2.5.5:
The share of welfare families that move from welfare to work each year while assisted by project-based Section 8 increases.

Background. Project-based Section 8 contracts reimburse private property owners for a designated number of low-income households who cannot afford to pay the fair market rent. Roughly 40 percent of assisted multifamily households have welfare as their primary source of income. Promoting self-sufficiency, work participation and income growth helps these families climb the housing ladder and frees up program resources to assist more needy families. For FY 2003, this indicator is being replaced by a measure of the change in average earnings of non-elderly non-disabled households in public housing, assisted multifamily and Housing Choice Voucher programs.

Results and Analysis. Among the welfare families who lived in assisted multifamily housing in September 2000, 21.8 percent had moved to work by September 2001. No specific FY 2001 goal was established for this indicator pending determination of a solid baseline. Nevertheless, a reasonable annualized estimate of work transition in FY 1998 is 15.3 percent, based on 31.8 percent of welfare families moving to work during the 25 months between December 1995 and January 1998. This transition rate is slightly higher than the annualized rate for public housing households (Indicator 3.2.4), but below that of voucher households (3.2.5).

The project-based Section 8 program offers fewer options for promoting self-sufficiency of residents because the housing providers are private owners rather than public housing agencies. One important tool for the assisted multifamily program is Neighborhood Networks, which are multiservice community technology centers for low- and moderate-income residents. The centers help residents gain knowledge and skills through the use of computer learning to prepare themselves for the job market and attain self-sufficiency. HUD supports the voluntary efforts of private project owners to establish Neighborhood Networks centers by allowing the owners to borrow funds from their "Reserve for Replacement Account" or use their "Residual Receipts Account" for up to three years. Multifamily partners established 201 new Neighborhood Networks centers during FY 2001.

Programmatic Output Indicator 3.2.b:
Among Consolidated Plan jurisdictions with housing authorities, the share that have included housing authority representatives in consolidated planning efforts reaches 90 percent.

Background. This indicator tracks the share of Consolidated Plans that demonstrate that States or communities include officials from housing agencies in a decision-making role. It is discussed in detail under indicator 1.2.p.

Outcome Indicator 3.2.6:
The share of households that accumulate assets exceeding $5,000 in cash value while receiving housing assistance increases by 2 percentage points.

Background. As discussed in the FY 2000 PAR, a review of baseline data revealed that this threshold assets measure has little substantive validity for program management purposes. Fewer than 1 percent of non-elderly households in the public housing and voucher programs had assets exceeding $5,000 during FY 2000. Beginning in the FY 2002 Annual Performance Plan, the indicator has been replaced by one that focuses on the Family Self-Sufficiency program, HUD's primary tool for developing independence and building assets among residents of public and assisted housing. The replacement indicator is being reported here.

Under FSS, self-sufficiency coordinators work to connect residents with education, job training, child care, counseling, transportation, job placement and other services needed to enable them to get jobs. Some participants in the program are on welfare, and others are in low-wage unskilled jobs and seeking to move up to better paying jobs so they can support their families. Participants sign a contract saying the head of the household will get a job and no one in the family will be receiving welfare assistance within five years. During the term of the contract, an amount equal to about a third of the household's increases in earned income is deposited by the PHA into an interest-bearing escrow account for the family. If a family fulfills its contract requiring employment and independence from welfare, it can claim its escrow account. Families have used funds from their escrow accounts for such things as a downpayment on a home purchase, starting a business, paying back debts and paying educational expenses. If a family fails to fulfill the contract, it does not get the funds in the escrow account.

The new indicator established in the FY 2002 APP is "The number of public housing and Housing Choice Voucher households that have accumulated assets through the Family Self-Sufficiency program increases by 5 percent and the average escrow amount for FSS graduates increases." The new indicator measures the number of public housing and voucher-assisted households who participate in FSS and have positive escrow balances, and the average escrow amount for graduates during the fiscal year. The data source for this measure is the PIH Information Center (PIC) form HUD-50058 report module. PIC contains household data, including an addendum for FSS households, that are submitted electronically by housing agencies.

Results and Analysis. Baseline counts of Family Self-Sufficiency participants and participants with accumulated assets in their escrow accounts were published in the FY 2002 APP, using the current household records in the system as of February 2001. Public housing programs had 7,092 families participating in FSS, and the Housing Choice Voucher program had 47,755 FSS participants. In public housing, 2,735 participants (39 percent) had accumulated assets in their escrow accounts, and 15,603 voucher participants (33 percent) had escrow assets.

February 2001

Public Housing Households	
FSS Participants	7,092
Number with Escrow Assets	2,735
Average Escrow Amount for Graduates	not available

Housing Choice Voucher Households	
FSS Participants	47,755
Number with Escrow Assets	15,603
Average Escrow Amount for Graduates	not available

The reliability of the data shown here is not certain. Many PHAs have reported difficulty getting their FSS data into PIC 50058, with the result that PIC 50058 does not always accurately reflect FSS program enrollment and escrow activities. Reporting accuracy and completeness is expected to improve with the new HUD-50058 FSS addendum that was implemented in September 2001. Future performance reporting will use household records submitted by housing agencies as of the end of HUD's fiscal year.

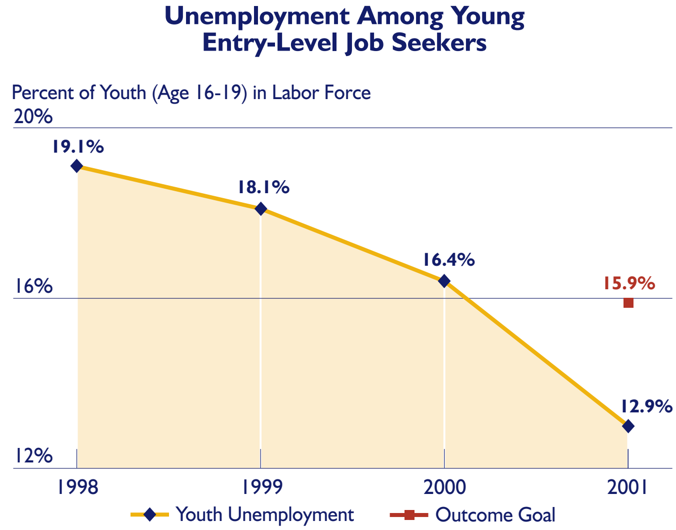
Programmatic Output Indicator 3.2.c:
The share of housing authorities scoring at least 8 points under the SEMAP indicator for FSS increases by 5 percentage points in 2001.

Background. The Family Self-Sufficiency (FSS) program requires that housing agencies sign self-sufficiency progress contracts with a specified number of tenants. FSS helps tenants build assets by funding escrow accounts with increased tenant rent payments resulting from increased earnings. No data are available for FY 2000 because of delays in the implementation of SEMAP. The first full year of scoring under SEMAP will be completed in FY 2002 after the September 2001 PHAs are scored.

Outcome Indicator 3.2.7:
Unemployment rates among young, entry-level jobseekers in central cities decline by 0.5 percentage point annually to 17.5 percent by 2001.

Background. This indicator tracks the unemployment rate for the 16- to 19-year-old labor force in central cities. The unemployment rate of youth indicates the extent to which entry-level or unskilled jobseekers, including former TANF recipients, are finding employment. Youth are not a perfect proxy for all entry-level unemployed persons because they may have more computer-related skills or other differences in human capital. Youth have higher rates of unemployment than other age groups. The unemployment rate is defined as the percentage of those who want to work (the labor force) but who do not have jobs. This measure relies on annual calendar year estimates provided by the Bureau of Labor Statistics using data from the Current Population Survey and unemployment insurance programs. This indicator does not appear in the FY 2003 APP because the numerous economic factors that affect the outcome place it substantially beyond HUD's span of control or influence.

Results and Analysis. In calendar year 2001, the youth unemployment rate improved dramatically to 12.9 percent, exceeding the performance goal of a 0.5 percentage point improvement from 2000 levels (to 15.9 percent).



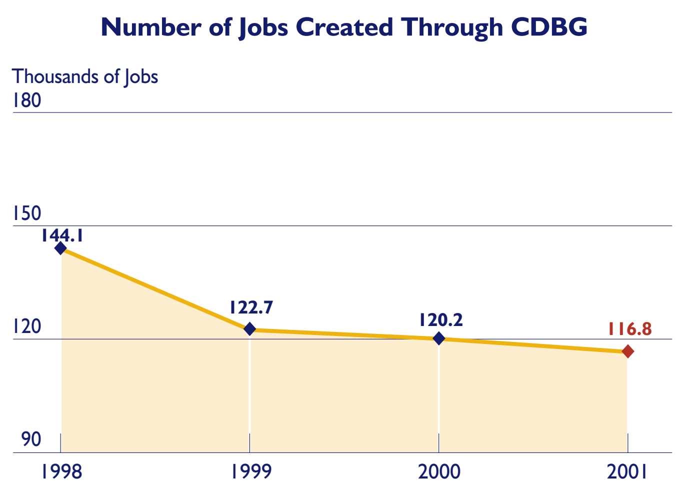
Relatively strong urban economies were a major factor in this promising result. A number of HUD programs also help create jobs in urban areas, either directly or through secondary effects. Community Development Block Grants, Section 108 loan guarantees, and Empowerment Zone programs are key economic development programs. CDBG and Section 108 together helped create or retain 143,406 jobs in FY 2001. HUD's enforcement of Section 3 requirements helps ensure that grantees use funds in ways that create job opportunities for low-income residents.

The Department also has several programs that enhance job readiness for entry-level workers. The Youthbuild program helps youths develop construction-related skills by learning on-the-job. Neighborhood Networks technology centers, operated by multifamily housing providers, help disadvantaged residents develop the critical computer skills needed in the job market. For FY 2003, HUD is seeking to build on the successful Neighborhood Networks model by expanding it into public housing.

Programmatic Output Indicator 3.2.d:
A total of 154,000 jobs will be created or retained through CDBG and Section 108.

Background. Many communities choose to use a substantial fraction of their CDBG grants and Section 108 guaranteed loans to improve the local economy and help their citizens find productive work.

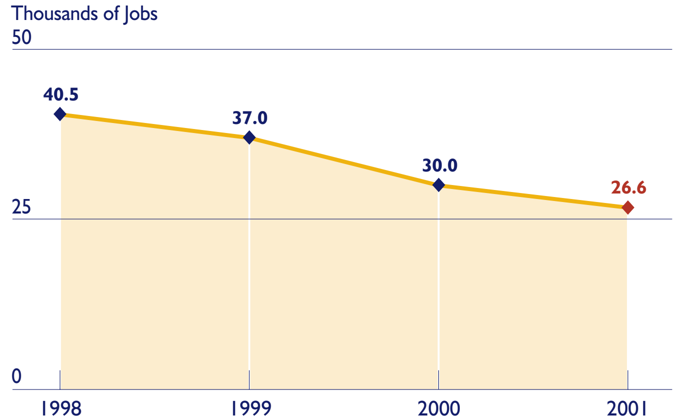
For FY 2000 and prior years, the value reported for CDBG was the expected number of jobs created or retained as a result of that year's appropriation, based on the average job creation or retention per grant dollar as reported by grantees. Beginning in FY 2001, the measure used for CDBG represents actual full-time-equivalent jobs created or retained with cumulative outlays as reported by grantees into the Integrated Disbursement Information System (IDIS). The Section 108 Loan Guarantee measure of jobs created or retained is based upon data submitted by applicants at the time of application for a Section 108 Loan Guarantee commitment. The goal for FY 2002 is to create or retain 124,900 jobs through CDBG and 30,000 through Section 108. For FY 2003, the goal is to create or retain 122,897 jobs through CDBG and 15,000 through Section 108.



Reported job creation or retention may understate the actual number of jobs created or retained because of reporting errors and the failure of some grantees to report accomplishments. HUD is currently undertaking a substantial data clean-up effort with all entitlement grantees to improve the quality of accomplishments and other data provided by grantees in IDIS.

Results and Analysis. The FY 2001 accomplishments for CDBG and Section 108 together were 143,406 jobs created or retained, falling short of the goal of 154,000 jobs. The CDBG program created or retained 116,777 jobs, while the Section 108 program created or retained 26,629. Some of the shortfall can be attributed to the Section 108 loan guarantee program, for which actual commitments and applicant self-reported jobs created or retained fell 3,371 jobs below the prediction. The Section 108 program is solely a demand-driven program. For FY 2001, the total amount of requests for Section 108 loan guarantees was $263.589 million, whereas in FY 2000 the total loan guarantee commitment was $427.844 million. The drop in the use of Section 108 may be attributed to the lack of an appropriation for the Economic Development Initiative (EDI) grant program. The EDI request was expected to leverage approximately $500 million in Section 108 Loan Guarantee Funds. There were no EDI discretionary funds appropriated in FY 2001.

Number of Jobs Created Through Section 108



Programmatic Output Indicator 3.2.e:
A total of 11,080 youths are trained in construction trades through Youthbuild.

Background. The Youthbuild Program offers 16- to 24-year old high school dropouts general academic and skills training, as well as apprenticeships in housing construction and rehabilitation. For FY 2001, 4,080 youths were projected to be trained (to reach a cumulative total of 11,080), based on the number of applications granted and the projections of each.

Results and Analysis. As a result of applications awarded for the FY2001 competition, the actual number of youths to be trained is 3,614-11 percent less than the goal. Three factors account for the failure to reach the goal: 1) the Youthbuild program is a competitive program, and HUD has no control over the number of fundable applications and the youths to be trained projected in the applications submitted by the deadline; 2) under two categories (new applicants and rural applications) there was a limitation of 20 for the number of youths trained; and 3) the NOFA was targeted to higher-need and more highly distressed areas that had less access to other funds, and thus could train fewer youths.

Strategic Goal 4: Improve Community Quality of Life and Economic Vitality

Strategic Objectives:

4.1 The number, quality, and accessibility of jobs increase in low-income urban and rural communities.

4.2 Disparities in well-being among neighborhoods and within metropolitan areas are reduced.

4.3 Communities are safe.

Objective 4.1: The number, quality, and accessibility of jobs increase in low-income urban and rural communities.

Outcome Indicator 4.1.1:
Maintain or increase the number of jobs accessible to city residents by keeping the three-year average ratio of city job growth to city population growth at least 100 percent.

Background. Although cities historically have been job centers, the capacity of suburban areas for commercial and industrial development has diminished this role. Cities remain places of above-average poverty and joblessness, however, and creating jobs in cities is a fundamental means of reducing these concentrations. To ensure that cities remain job centers and continue to provide accessible jobs for low-income residents, the goal is to maintain the ratio of job creation to population growth in central cities at or above 100 percent over the long term, as measured by a retrospective rolling average over three years. This measure relies on population estimates from the Bureau of Census as well as and special tabulations of the Bureau's County Business Patterns data for 114 central cities, which are available annually with a 3-year lag. The use of a three-year rolling average helps reduce the volatility of annual estimates, which are subject to the business cycle and demographic trends. This indicator does not appear in the FY 2003 APP because the numerous economic factors that affect the outcome place it substantially beyond HUD's span of control or influence.

Results and Analysis. During the 1995-1998 period, job growth in central cities was 5.08 times as great as population growth. [Data for 1996-1999 will be available shortly.] During the 1991-1993 period, a time of very slow job creation, jobs in central cities actually declined. Because of the lag in the data, the reported results were not affected by the Department's program activities in FY 2001.

Programmatic Output Indicator 4.1.a:
At least 90 percent of EZs and ECs achieve local goals in helping residents find jobs.

Background. HUD has designated 89 Empowerment Zones (EZs) and Enterprise Communities (ECs). HUD measures their performance in seven areas including helping residents find gainful employment. Data represent the sum of outputs taken from plans that are 95 percent completed divided by the sum of projected outputs for all plans. A more detailed discussion of this measure is included under Indicator 4.2.b.5.

Results and Analysis. In FY 2001, 64 percent of EZ and EC projects met goals with respect to helping residents find gainful employment. This level is well below the target of 90 percent, and even below the FY 2000 level of 69 percent.

Programmatic Output Indicator 4.1.b:
The CEF Pilot will securitize at least $50 million in business loans in distressed areas by the end of FY 2001, and the CEF Trust will securitize $300 million more by the end of FY 2002.

Background. The Community Empowerment Fund (CEF) was intended to combine two programs, the Economic Development Initiative and the Section 108 Loan Guarantees. Originally intended to be implemented in FY 2000, the CEF Pilot was not approved by the previous administration for implementation. For FY 2001, none of the requested funds in the administration's budget were appropriated. The FY 2002 budget and appropriation did not include any funding for the CEF program.

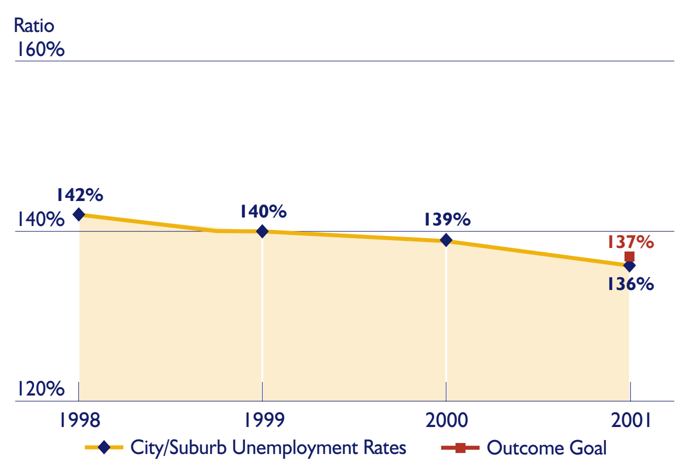
Outcome Indicator 4.1.2:
The ratio of city to suburban unemployment rates within metropolitan areas decreases to 137 percent.

Background. The ratio of city to suburban unemployment rates indicates the extent to which city residents are sharing in national economic growth. Cities have higher rates of unemployment and welfare dependency than suburbs. Higher unemployment rates in cities increase the difficulty of welfare-to-work initiatives because welfare recipients must compete with more non-recipient jobseekers. This measure is based on monthly statistical estimates by the Bureau of Labor Statistics using data from the Current Population Survey and Unemployment Insurance programs. This indicator has not appeared since the FY 2001 APP because the Department concluded following stakeholder consultation that city-suburb comparisons are not appropriate measures of program performance.

Results and Analysis. During calendar year 2001, city unemployment rates were 36 percent higher than (or 136 percent of) unemployment rates in suburban communities. The result surpassed the target of 137 percent, as the geographic disparity in unemployment rates continued a trend of shrinkage at a somewhat faster rate in 2001, improving by 3 percentage points.

National and local economic conditions are the primary determinants of unemployment rates. HUD programs that create jobs in poor communities, those that promote job mobility, and those that develop

City Unemployment Rates as Percentage of Suburb Unemployment Rates



self-sufficiency all contribute to reducing concentrations of unemployment. For example, the CDBG program provided $4.9 billion of outlays to grantees in FY 2001. The benefits from CDBG activities flowed primarily to low- and moderate-income residents or neighborhoods. Urban Empowerment Zones are located primarily in central cities, so EZ grants and associated tax incentives also contribute to reductions in city-suburb unemployment disparities.

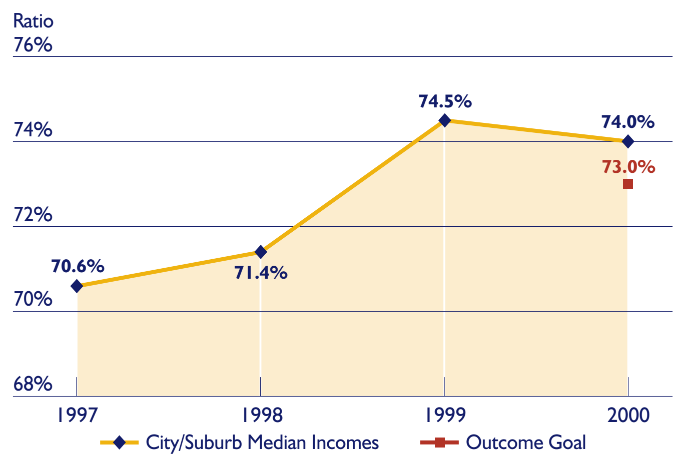
Outcome Indicator 4.1.3:
The national average ratio of central city to suburban median household income will reach 73 percent.

Background. During recent decades, central cities have contained concentrations of low-income households, so median household incomes are substantially lower for central cities than for suburban jurisdictions. This measure uses Bureau of Census data for calendar year 2000 from the 2001 Current Population Survey. This indicator was eliminated in the FY 2002 APP as the Department moved away from measures based on city-suburb comparisons, and because of the difficulty with attributing results to HUD programs.

Results and Analysis. The most recent data available show that the ratio of median incomes between cities and suburbs decreased slightly in calendar year 2000 to 74.0 percent, yet surpassed the FY 2001 target of 73.0 percent. The drop indicates that recent reductions in geographic disparities leveled as the decade closed.

Many community and economic development programs are designed to increase incomes of central city residents. The design of the CDBG program helps create more economic activity in low- and moderate-income neighborhoods. Community development programs that make the central city a more desirable place to live also are intended to increase this income ratio by attracting middle-class families back to the city.

Ratio of City Median Income to Suburb Median Income



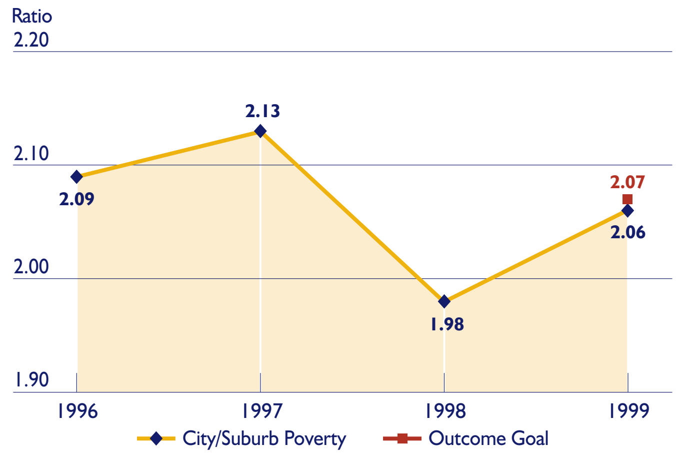
Outcome Indicator 4.1.4:
The national average ratio of central city to suburban poverty rates decreases from 209 to 207 percent.

Background. Reducing poverty in central cities is one measure of HUD's progress towards improving the quality and accessibility of jobs because HUD historically has invested a great deal of economic development resources in central cities. This indicator tracks the ratio of city to suburban poverty rates to isolate the changes that are unique to central cities. Calendar year 2000 data are the most recent available. Because the Department is moving away from using city to suburb comparisons, this indicator was modified in the FY 2002 APP to track the share of working households who are in poverty. In FY 2003, the measure was dropped because of the difficulty with attributing results to HUD programs.

Results and Analysis. The geographic disparity of poverty rates grew worse during calendar year 2000, yet surpassed HUD's FY 2001 performance goal. Poverty rates in cities were 206 percent of poverty in suburban jurisdictions, or over twice as high. The goal was that the disparity should not exceed 207 percent.

In the late 1990s, economic activity in central cities improved the job market, leading to increasing wages. Despite continued reductions in unemployment rates in central cities relative to suburbs (see Indicator 4.1.2), poverty disparities slipped back from the improvement experienced in 1999.

Ratio of City Poverty Rate to Suburb Poverty Rate



The Community Development Block Grant program is one of HUD's primary tools for fighting poverty. Public housing agencies also help reduce poverty by supporting the self-sufficiency efforts of assisted households who are able to work. The Family Self-Sufficiency program contributes directly to these efforts for about 55,000 households (see Indicator 3.2.6). Rules for excluding increases in earned income when PHAs determine rents also help make work pay. Other activities of HUD and PHA partners help disperse concentrations of poor families into mixed-income neighborhoods. These include the Housing Choice Voucher program, which enables recipients to choose low-poverty neighborhoods; the demolition of much of the Nation's high-rise public housing; and increased use of scattered-site public housing.

Outcome Indicator 4.1.5:
Unemployment rates among young, entry-level jobseekers in central cities decline by 0.5 percentage point annually to 17.5 percent by 2001.

Background. This performance indicator is used to measure outcomes for multiple strategic objectives. It is included under this objective because of its relation to job creation. It is discussed more completely as Indicator 3.2.7.

Results and Analysis. In calendar year 2001, the youth unemployment rate improved dramatically to 12.9 percent, exceeding the performance goal of a 0.5 percentage point improvement from 2000 levels (to 15.9 percent).

Programmatic Output Indicator 4.1.e:
A total of 154,000 jobs will be created or retained through CDBG and Section 108.

Background. Many communities choose to use a substantial fraction of their CDBG grants and Section 108 guaranteed loans to improve the local economy and help their citizens find productive work. This measure is repeated here because of its relation to job creation. It is discussed more fully as Indicator 3.2.d.

Results and Analysis. The FY 2001 accomplishments were 143,406 jobs created or retained, which is below the goal of 154,000 jobs.

Objective 4.2: Disparities in well-being among neighborhoods and within metropolitan areas are reduced.

Outcome Indicator 4.2.1:
The homeownership rate in underserved neighborhoods ceases to decline by 2005.

Background. This indicator relies upon data from the long-form Census 2000. Results are expected to be available for reporting the 2000 baseline in 2003. This indicator is not included in the FY 2003 APP because the outcome is substantially beyond the Department's span of control.

Outcome Indicator 4.2.1.3:
Household income increases faster in New Market neighborhoods than in other neighborhoods.

Background. Data for reporting this indicator are not currently available in usable form. The indicator was deleted in the FY 2002 APP after the New Market initiatives remained unauthorized by Congress. Therefore, no additional efforts will be made to develop or report this measure.

Outcome Indicator 4.2.1.5:
The share of all households located in neighborhoods with extreme poverty decreases from 1990 levels.

Background. This indicator relies upon data from the long-form Census 2000. Results are expected to be available for reporting the 2000 baseline in 2003. This indicator is not included in the FY 2003 APP because the outcome is substantially beyond the Department's span of control.

Outcome Indicator 4.2.1.7:
Neighborhoods with substantial levels of CDBG investment will show improvements in such dimensions as household income, employment, business activity, homeownership and housing investment.

Background. The impact of Community Development Block Grants on low-income neighborhoods is difficult to determine because grantees have extensive flexibility to allocate funds according to local needs and priorities. This indicator begins the process of assessing the impact of CDBG resources on local communities. During FY 2000, HUD contracted with researchers to develop a methodology for determining what levels of CDBG investment in a neighborhood lead to changes in a set of identified neighborhood indicators. The study will also recommend a methodology for tracking changes in these neighborhood characteristics over a similar time period as the CDBG investments. The research has not yet been completed, but is expected to be available for reporting in 2003.

Outcome Indicator 4.2.1.9:
Neighborhoods with substantial levels of HOPE VI investment will show improvements in such dimensions as household income, employment, homeownership and housing investment.

Background. The HOPE VI program assists public housing agencies to improve the living environment for public housing residents in severely distressed public housing properties through the demolition, rehabilitation, reconfiguration or replacement of obsolete properties. This indicator is intended to build on the lessons learned about measuring neighborhood impacts through the developmental research for the CDBG performance indicator 4.2.1.7. No attempt has been made to develop this indicator pending results of the CDBG effort. This indicator has not been carried forward in the FY 2003 APP because of potential methodological hurdles that make the value of this assessment uncertain at this time. A number of case studies of the first 15 HOPE VI sites were completed during 2000 and 2001. A long-term evaluation of the HOPE VI program is underway.

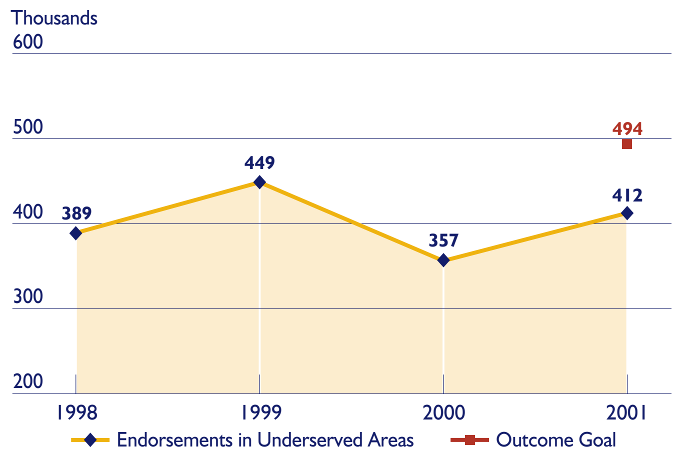
Programmatic Output Indicator 4.2.a:
Increase FHA single-family mortgage lending in underserved communities by 10 percent from FY 1999 levels to 494,000.

Background. FHA's role in the mortgage market is to extend homeownership to families that otherwise might not achieve homeownership. There is substantial evidence that lower income and minority neighborhoods are less well served by the conventional mortgage market than are more affluent and nonminority neighborhoods.

While it is extremely important that FHA loans be available in underserved communities for those who otherwise might not become homeowners, it is also important that FHA be a complement to, and not a substitute for, conventional lending. A healthy housing market requires the availability of conventional mortgages as well. A goal for increasing FHA lending in such neighborhoods should not involve an increased FHA share of the total mortgage market in these communities, but should be accompanied by increased conventional lending as well. Data for this indicator are from FHA's Consolidated Single Family Statistical System (CSFSS, F42). In FY 2002, the target for this indicator was reduced to a 5 percent increase. For FY 2003, the indicator has a numeric target of 421,000.

Results and Analysis. During FY 2001, FHA endorsed 412,192 single family mortgages in underserved communities. This level is below the goal of a 10 percent increase from the FY 1999 level to 494,000, but it is an increase over the 357,000 endorsements in FY 2000. The lower than expected level is partially a result of slow economic activity during FY 2001. Though the overall housing market remained strong, underserved communities tend to be disproportionately affected during economic downturns. FHA endorsements are largely demand driven and substantially affected by overall economic conditions including interest rates.

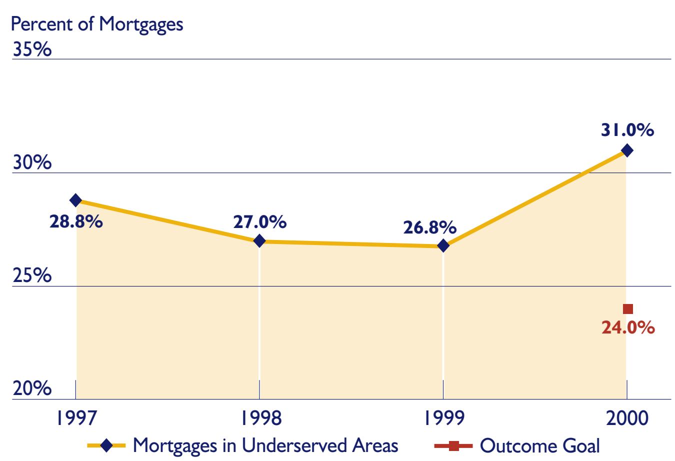
FHA Single Family Mortgage Endorsements in Underserved Areas



Programmatic Output Indicator 4.2.b:
Fannie Mae and Freddie Mac meet or surpass HUD-defined geographic targets for mortgage purchases in underserved areas.

Background. One of the three public purpose goals that HUD sets for the housing GSEs involves increasing the share of mortgages purchased from "central cities, rural areas and other underserved" areas. HUD defines underserved areas in metropolitan areas as census tracts either with a minority population of at least 30 percent and median family income below 90 percent of the area median income irrespective of minority population percentage. The definition is similar in non-metropolitan areas except that counties are

Fannie Mae Performance Relative to Geographic Target

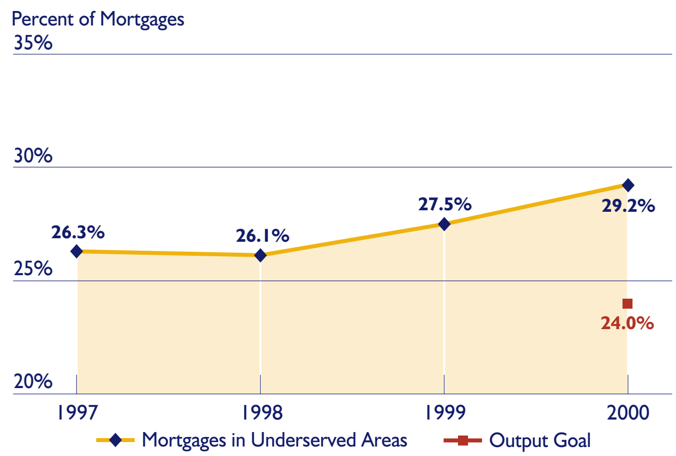


substituted for census tracts. HUD's research has shown that such areas have high mortgage denial rates and low mortgage origination rates, suggesting difficulty in obtaining access to mortgage credit.

Data reported for this indicator are calendar year and have a one-year lag because they are audited. In 2000, the target for mortgage purchases in underserved areas was 24 percent. (The 29 percent goal published in the FY 2001 APP corresponded to the interim rule, but the final rule continued the 1999 goal of 24 percent for another year.) Beginning in calendar year 2001, the target has been increased to 31 percent for each GSE.

Results and Analysis. In calendar year 2000, Fannie Mae and Freddie Mac both surpassed HUD's target of 24.0 percent by a wide margin. Fannie Mae achieved 31.0 percent, while Freddie Mac achieved 29.2 percent. The proportion of mortgage purchases originating in underserved areas increased by 4.2 percentage points for Fannie Mae and by 1.5 percentage points for Freddie Mac. Fannie Mae's superior performance on the underserved area measure is explained primarily by a greater proportion of single-family purchases in underserved areas-30.1 percent, compared with 28.4 percent for Freddie Mac. For both GSEs, the shares of multifamily units located in underserved areas were not much greater than the corresponding shares of single-family units.

Freddie Mac Performance Relative to Geographic Target



Programmatic Output Indicator 4.2.b.3:
The HOPE VI Revitalization Development program for public housing relocates 2,300 families, demolishes 4,100 units, completes 12,000 new and rehabilitated units, and occupies 11,100 units.

Indicator Background and Context. HOPE VI is HUD's primary program for eliminating the worst public housing by demolishing unsustainable developments and rebuilding communities in accordance with community-sensitive principles. The indicator is repeated under this objective because of its impact on distressed communities. The indicator is discussed in more detail as Indicator 1.2.b.

Results and Analysis. In FY 2001 the HOPE VI Revitalization program for public housing relocated 6,923 families, demolished 12,375 units, completed 4,044 new and rehabilitated units, and occupied 3,579 units.

Programmatic Output Indicator 4.2.b.5:
EZs and ECs achieve local goals in six activities.

Background. In 1994, HUD designated 72 distressed urban communities across the country as Round I Empowerment Zones (EZs) or Enterprise Communities (ECs). In 1998, an additional 15 Round II urban EZs were designated. Because some Round I Enterprise Communities became Round II Empowerment Zones, the total number of EZ/ECs is 80.

HUD's input into the program involves the selection of the census tract-based designations based on the quality of the community's strategic planning process, and in the case of Round II EZ actual grant money. EZs and ECs develop and implement projects and programs with quantified local goals in seven categories. Once a project is completed, the community reports to HUD on whether their goals were achieved. Data for this indicator represent cumulative outputs for plans that are at least 95 percent complete divided by the cumulative projected outputs for completed plans. FY 2001 data are preliminary[21] and include projects that were reported at least 95 percent complete by June 30. The EZ/EC program has experienced slower obligation and expenditure rates and additional funding was not requested in FY 2003.

Goals Identified in Implementation Plans

	1999 actual	2000 actual	2001 goal	2001 preliminary
Residents receiving homeownership assistance	80%	81%	90%	87%
New affordable housing completed	93%	91%	85%	88%
Rehabilitated affordable housing completed	71%	88%	80%	85%
Homeless residents served by homeless assistance programs	84%	83%	90%	88%
Residents served by social service programs	80%	73%	90%	86%
Residents find gainful employment	82%	69%	90%	64%
Residents served by public safety and crime prevention programs	74%	91%	90%	83%

Source: HUD's Performance Measurement System (PERMS)

Results and Analysis. Preliminary 2001 data show that EZ/EC performance relative to locally-defined goals exceeded HUD's performance targets in 2 of the 7 categories. Performance improved from 2000 in 3 categories, and went down in 4 others. There are many possible reasons for changes in performance. Communities may have set more or less challenging targets based on past performance. Also, EZs or ECs are in different stages of maturity. The 72 EZs and ECs designated in 1994 have been operating for several years, while the ones designated in 1998 have just completed their first projects. As they mature, EZs become more experienced and are better able to implement their projects. The proportion of local goals achieved will decrease when EZ/ECs project a large number of outputs and implementation falls short of expectations. HUD provides technical assistance to EZs and ECs to advise them in developing complicated projects and to link them with other communities who have been successful.

These data will be used for the production of promotional materials, best practices manuals and to assess technical assistance needs of EZ/ECs. HUD will encourage timely implementation of projects and spending of HUD EZ II grant monies through proactive outreach to EZ/ECs with insufficient progress. PERMS improvements are forthcoming and will include updated training to EZ/ECs via conference calls or a satellite broadcast. Furthermore, the RC/EZ/EC office, in conjunction with CPD Comptroller, is preparing a policy and procedure manual that will clarify the roles of HQ and the Field for the purpose of improving monitoring, compliance and performance evaluation of the grantees.

Related Program Evaluations. GAO conducted evaluations on EZ/ECs in 1996, 1997, 1998 and 1999. They focused on the use of tax incentives in 1998 and 1999. In 2001, Abt Associates completed an internal impact evaluation of Round I Empowerment Zones using time series analysis of unemployment in EZ in comparison to control census tracts. They also did an analysis of PERMS and PERMS data. Despite intrinsic methodological barriers, the researchers concluded that the majority of EZ/ECs had significant impact. The full report is available at *www.huduser.org*.

Outcome Indicator 4.2.2 :
The ratio of central city to suburban median values of owner-occupied homes increases by 0.3 percentage points to 78.6 percent in 2001.

Background. This indicator relies upon data from the 2001 American Housing Survey, which will be completed in time to report in 2003. The indicator was discontinued in the FY 2002 APP, as HUD determined that comparisons between cities and suburbs did not provide appropriate measures of program outcomes.

[21] *As of the production of this report, four of 80 reports are still outstanding and several others have yet to be verified.*

Outcome Indicator 4.2.3:
The rate of growth in urban land per decade or per year decreases to be equal to, or less than, the rate of growth in U.S. population between 2000 and 2005.

Background. This indicator relies upon data from the Census 2000 for the baseline and from future American Community Surveys to measure change. Data for the 2000 baseline will become available in 2002. However, this indicator is not carried forward in the FY 2003 APP because the outcome is substantially beyond the Department's span of control.

Programmatic Output Indicator 4.2.c:
The share of Consolidated Plans that contain measurable performance goals for housing activities and for community development activities increases.

Background. Communities develop 5-year Consolidated Plans to guide their use of CDBG, HOME, Emergency Shelter, and HOPWA grants. Grantees are able to choose from a wide array of activities, so the quality of planning for self-defined objectives is critical. Housing and community development activities were among the highest activities undertaken by the grantees. The last group of Consolidated Plans was received in FY 2000. The next set of plans will be received in FY 2005.

Results and Analysis. Field offices have examined numerous results from standardized assessments of Consolidated/Action Plans received in FY 2000 and FY 2001. However, these assessments did not include a review to determine whether or not the plans contained measurable performance goals for housing and community development activities. CPD has made provisions to capture this information in FY 2002 as part of the Consolidate/Action Plan reviews. It is estimated that over 900 plans will contain performance goals for housing and community development activities. The results of the review will be reported in the FY 2002 Performance and Accountability Report.

Outcome Indicator 4.2.4:
Among low- and moderate-income residents, the share with a poor or fair opinion of their neighborhood decreases in cities, suburbs, and nonmetropolitan areas.

Background. This indicator relies upon data from the 2001 American Housing Survey, which will be completed in time to report in 2003. Beginning in FY 2003, this indicator will not be reported because of the difficulty with attributing results to HUD programs.

Programmatic Output Indicator 4.2.c.5:
The number of Neighborhood Revitalization Strategy Areas identified in Consolidated Plans increases.

Background. Neighborhood Revitalization Strategy Areas (NRSAs) are an optional feature of Consolidated Plans. This indicator has not been carried forward into FY 2002. HUD is exploring more direct measures of the impact of CDBG investment through indicator 4.2.1.7.

Results and Analysis. At the end of FY 2001, there were 105 Neighborhood Revitalization Strategy Areas identified in Consolidated Plans. An evaluation of the CDBG program showed that a strategic focus on neighborhoods helped grantees achieve better results with grant dollars compared with communities that spread funds more thinly. Approved NRSAs benefit from regulatory incentives similar to those that apply in Empowerment Zones.

Programmatic Output Indicator 4.2.d:
The share of CDBG entitlement funds that benefit low- and moderate-income persons remains at or exceeds 92 percent.

Background. Entitlement communities are required to use Community Development Block Grants for housing, community and economic development activities of which at least 70 percent benefit low- and moderate-income residents. CDBG grantees historically have exceeded this requirement, and HUD has an interest in encouraging continuing strong performance in this area so the greatest local needs are met.

Results and Analysis. During FY 2001, entitlement communities used 94.9 percent of funds for activities that benefit low- and moderate-income households. This level exceeds the goal of 92.0 percent and is also above the FY 2000 level of 93.7 percent.

HUD has no direct control over the percentage of CDBG funds that communities use for low- and moderate-income residents, other than to enforce the statutory minimum of 70 percent. However, HUD field office staff continually review and advise grantees to encourage the use of funds for the most needy residents. Furthermore, HUD is reviewing options for streamlining the consolidated plan to facilitate community participation.

Programmatic Output Indicator 4.2.e:
The share of State CDBG funds that benefit low- and moderate-income persons remains at or exceeds 98 percent.

Background. States are required to use Community Development Block Grants for activities of which at least 70 percent benefit low- and moderate-income residents. CDBG grantees historically have exceeded this requirement, and HUD has an interest in encouraging continuing strong performance in this area so the greatest local needs are met.

Results and Analysis. During FY 2001, 96.4 percent of State CDBG funds were used for activities that principally benefit low-and moderate-income households. This is below the goal of 98.0 percent, and also below the FY 2000 level of 97.4 percent.

As is the case for CDBG entitlement funds, HUD has no direct control over the percentage of CDBG funds that communities use for low- and moderate-income residents, other than to enforce the statutory minimum of 70 percent. However, HUD field office staff continually review and advise grantees to encourage the use of funds for the most needy residents. Furthermore, HUD is reviewing options for streamlining the consolidated plan to facilitate community participation.

Programmatic Output Indicator 4.2.f:
Among all CDBG direct beneficiaries identified, the share that have low incomes remains at or exceeds 56 percent.

Background. States and entitlement grantees are required to use Community Development Block Grants for activities of which at least 70 percent benefit low- and moderate-income residents, as defined by geographic areas. Direct beneficiary activities are those that benefit low- and moderate-income persons directly rather than serving a geographic area. Direct beneficiary activities include “limited clientele” activities that serve a group that is demonstrated or reasonably presumed to be at least 51 percent made up of low- and moderate-income persons. Other types of direct benefit activities are job creation and retention and the provision and rehabilitation of housing.

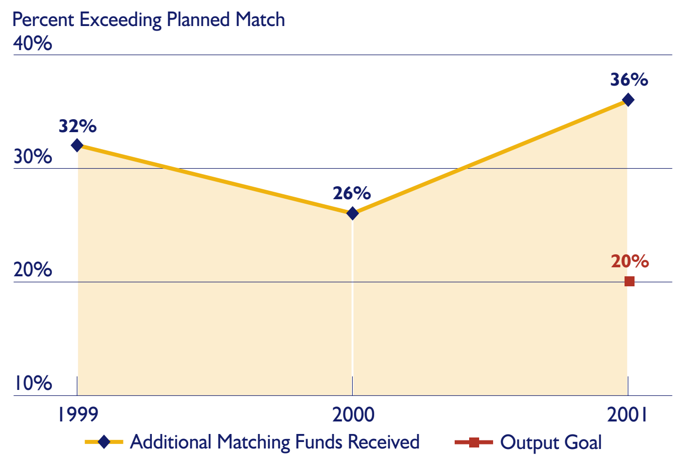
Results and Analysis. During FY 2001, only 51 percent of direct beneficiaries had low incomes. This misses the target of 56 percent and is also a significant decline from the FY 2000 level of 62.7 percent. HUD has no direct control over the percentage of CDBG funds that communities use for these purposes. However, HUD field office staff continually review and advise grantees to encourage the use of funds for the most needy residents. Furthermore, HUD is reviewing options for streamlining the consolidated plan to facilitate community participation.

Programmatic Output Indicator 4.2.g:
COPC grantees will receive an extra 20 percent in non-Federal funds above the match amount originally claimed in their application between the times they start and complete their projects.

Background. The Community Outreach Partnership Centers (COPC) program provides funds to colleges and universities for a wide variety of technical assistance and applied research activities. The underlying purpose of these activities is to strengthen the commitment of colleges and universities to their communities and local organizations within those communities, build the capacity of community-based organizations and highlight role models for other partnerships between universities and community-based organizations. This indicator demonstrates the satisfaction that community-based organizations, local governments, foundations, private businesses, and the schools themselves have with COPC-funded activities by measuring new financial commitments to continue, expand, and in some cases institutionalize, the work. Results are based on grantee performance reports and are measured by the percentage by which matching funds exceed match commitments for COPC grantees whose grants closed each calendar year. The FY 2002 APP and FY 2003 APP establish equivalent performance goals for coming calendar years.

Results and Analysis. For the 10 COPC grants that were completed in calendar year 2001, the average amount of non-federal match funds secured during the life of the grant was at least 36 percent more than originally claimed in the grant application. This result exceeds the goal of a 20 percent increase from original estimates.

COPC Matching funds Received Above the Planned Match



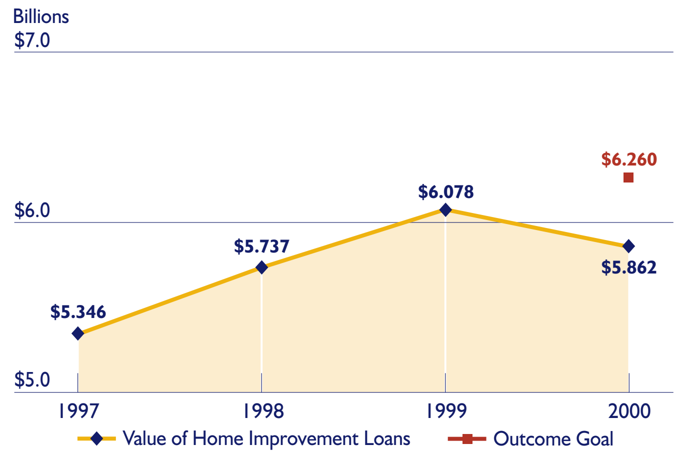
The ten grantees secured $4,887,548 in match funds, compared with $3,592,363 of matching funds anticipated in their grant applications. The success in attracting other funds to HUD-funded programs demonstrates the value that the contributors perceive in the program activities. The COPC office made special efforts to ensure that grantees report matching funds correctly in their performance reports, but not all of the amended reports are included in these results. The remainder of completed reports will increase the ratio more. The Interim report format is being improved to more easily retrieve the cumulative totals of nonfederal funds raised in future years.

Outcome Indicator 4.2.5:
The capital used to rehabilitate housing in underserved neighborhoods increases by 1 percent.

Background. Historically, deterioration of aging and distressed neighborhoods has been exacerbated by the unwillingness of private banks to extend credit in declining neighborhoods. The Community Reinvestment Act promotes lending for rehabilitation in such neighborhoods, which is often combined with funding from HUD programs such as CDBG and HOME. This indicator tracks the volume of private lending in "underserved" neighborhoods, defined in metropolitan areas as census tracts either with a minority population of 30 percent and median family income below 120 percent of the metropolitan area median, or with median family income at or below 90 percent of area median (irrespective of minority population percentage). A similar definition of underserved applies to nonmetropolitan areas, using counties rather than tracts. This measure uses the Home Mortgage Disclosure Act database, consisting of lending data submitted by depository institutions and for-profit non-depository institutions (e.g., mortgage companies) to their regulators. This indicator has been deleted from the FY 2003 APP because HUD's limited span of control on private mortgage lending.

Results and Analysis. The most recent available data show that in calendar year 2000, lenders originated home improvement loans in underserved areas totaling $5.862 billion, a decline of 3.6 percent from 1999 levels. The result failed to reach the FY 2001 performance target of a 5 percent increase from 1999 levels.

Volume of Home Improvement Loans in Underserved Areas



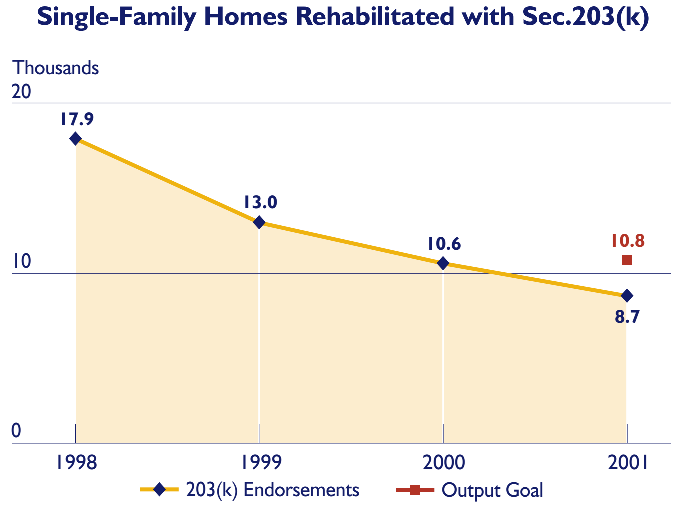
FHA's Section 203(k) program provides mortgage insurance to finance the purchase and rehabilitation of single-family properties. The program improves the availability of construction financing for rehabilitation loans, thereby supporting housing rehabilitation in underserved areas. FHA's Section 203(k) program had commitment authority to insure $1.339 billion of rehabilitation loans in FY 2001, and endorsed 8,668 loan guarantees. FHA wrote $167 million of insurance under Title I programs during FY 2001. The majority of Title I loans support property improvements. HUD also supports housing rehabilitation in underserved areas through CDBG and HOME, which communities often administer in ways that stimulate private lending.

The HMDA data shown here are not adjusted for inflation, and are known to under-represent total market activity for several reasons. Lending institutions are exempt from reporting if their assets fall below threshold levels, if they are located in rural areas or if they meet certain other criteria that have little impact on this measure. Some loans that are originated by mortgage brokers in the name of affiliated institutions may be excluded if brokers wrongly categorize them as a loan purchases rather than originations. Approximately 4 percent of total loan volume in 1999 did not have adequate geographic data.

Programmatic Output Indicator 4.2.h:
The number of single-family properties rehabilitated under Section 203(k) increases by 2 percent to 19,000.

Background. FHA's Section 203(k) program addresses the problems that homebuyers often face when they want to buy a home that is in need of repair - either first mortgage financing is not available because the property does not meet code, or else the buyer has to obtain a high-cost second mortgage to finance the repairs. With a 203(k) insured loan, both the property acquisition and the repairs can be financed in a single loan at costs comparable to those of a first mortgage. This makes additional existing homes affordable for moderate-income families and improves older urban neighborhoods. Data are from FHA's Computerized Homes Underwriting Management System (CHUMS, F17) and are verified through computerized checks and by FHA staff using quality assurance sampling methods. Because of uncertainty about the program's future, this indicator will not be reported in FY 2002 and beyond.

Results and Analysis. During FY 2001, 8,668 properties were rehabilitated under Section 203(k). This is an 18 percent decline from the FY 2000 level, missing the goal of a 2 percent increase. The 203(k) program experienced a precipitous decline after investors, who at the time were vital users of this tool, were prevented from participating. After the investors were removed, many lenders could not afford to keep staff with so few loans being processed. A key byproduct of this staff reduction was a lack of outreach in marketing the 203(k) programs. The 203(k) program is currently being retooled for future use.

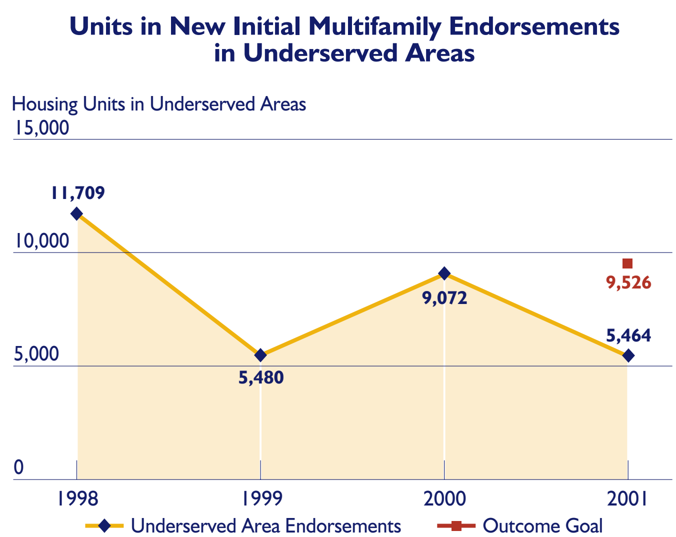


Programmatic Output Indicator 4.2.i:
The number of multifamily rental units in underserved areas newly insured by FHA increases by 5 percent to 6,000.

Background. FHA insures loans for new construction and substantial rehabilitation of multifamily rental units under a variety of programs (Sections 220, 221(d)(3), 221(d)(4), and risk-sharing under 542(b) and (c)). FHA also insures mortgages to refinance or purchase existing multifamily properties (Section 223(f)). These programs improve the quality and affordability of rental housing, and increasing their availability in underserved neighborhoods will promote revitalization of those neighborhoods.

For FY 2001, this measure counts the number of units in properties within underserved neighborhoods that are newly endorsed by FHA. Grants under Section 202 and Section 811 are excluded from this measure. The measure has been revised in the FY 2003 APP to include refinancing activity, which creates similar benefits for underserved areas. Refinanced loans include those restructured under the Mark-to-Market program as well as refinancing in support of repair and rehabilitation. Underserved neighborhoods are defined in metropolitan areas as census tracts either with a minority population of 30 percent and median family income below 120 percent of the metropolitan area median, or with median family income at or below 90 percent of area median (irrespective of minority population percentage). A similar definition of underserved applies to non-metropolitan areas, using counties rather than tracts.

Results and Analysis. During FY 2001, 5,464 multifamily units in underserved areas benefited from new FHA mortgage endorsements. The results were down from the FY 2000 peak, falling short of the FY 2001 goal of a 5 percent increase. Refinanced mortgages took up the slack, maintaining the total number of units in underserved areas at 17,797, slightly higher than the 17,696 units in FY 2000.



A principal factor in the FY 2001 result was the lower mortgage interest rate, which increased the demand for refinanced loans as compared with new loans. Interest rates in the conventional single-family market decreased roughly 1 percentage point during FY 2001. Other demand factors, including economic conditions and local markets, play a significant role both overall and in underserved areas. In order to increase the number of endorsements in underserved areas, FHA will continue outreach and coordination with housing providers and State and local governments, improving awareness of the housing needs of underserved areas and fostering attention on serving them.

A number of enhancements are improving the reliability and usefulness of multifamily data. HUD has added a new field to the Real Estate Management System to enable staff to track new loans in underserved areas. Data from REMS, DAP and other legacy systems are used to track management plan goals and accomplishments, helping to focus attention on resolving data quality problems. The 1990 definitions of underserved areas used for this measure will benefit from updating with Census 2000 data in the coming year.

Outcome Indicator 4.2.6:
Through the use of the Brownfields Economic Development Initiative and Section 108 loan guarantees, the number of brownfield sites being reclaimed and redeveloped increases by 25 to a total of 90.

Background. The Brownfields Economic Development Initiative (BEDI) grant program was created to stimulate economic and community development activities under Section 108(q) of the Housing and Community Development Act of 1974, as amended. Established in 1998, BEDI grant funds are intended principally for the redevelopment of brownfields sites, which are defined as difficult to redevelop because of real or perceived environmental contamination. Accordingly, BEDI funds combined with Section 108 loan guarantees are used for economic development projects that increase economic opportunity for low- and moderate-income persons or that stimulate or retain businesses or jobs. Data represent the number of sites awarded BEDI grants during FY 2001. In FY 2002 and beyond, HUD will measure the projected number of jobs created with BEDI grants, because it is a more meaningful indicator of the impact of the Brownfields program.

Results and Analysis. The number of communities awarded brownfield grants for fiscal year 2001 was 19, which is 6 sites below the goal. The number of projected jobs created with these grants was 7,053.

The level of performance for job creation by grantees was greater than expected. However, HUD awarded funds to fewer communities because a larger number of communities requested the maximum grant amount of $2 million as compared to previous years. Although HUD is interested in awarding brownfield funds to numerous communities, the goal is for HUD to finance projects and activities that will provide near-term results and demonstrable economic benefits. Economic projects of this type typically require greater resources. As a result, more communities requested the maximum amount of funds available through the BEDI program.

Objective 4.3: Communities are safe.

Outcome Indicator 4.3.1:
The share of households reporting "crime in neighborhood" declines by 0.2 percentage points to 16.8 percent in 2001.

Background. This indicator relies upon data from the 2001 American Housing Survey, which will be completed in time to report in 2003. This indicator will not be reported in FY 2003 and beyond because of the difficulty of attributing results to HUD programs.

Outcome Indicator 4.3.2:
Among residents of public housing developments targeted by PHDEP grants, average satisfaction regarding neighborhood security increases.

Background. The Public Housing Drug Elimination Program (PHDEP) has provided grants to housing authorities and resident management councils for initiatives to reduce crime. Typical grants fund supplemental law enforcement, security personnel, physical improvements promoting security, resident patrols, drug education and prevention, drug treatment, and other services targeted at reducing violent and drug-related crime in and around public housing developments. PHDEP program funds supplement but do not replace other PHA programs and community resources. They were designed to fill any holes left by other crime prevention and drug abuse reduction efforts. This indicator tracks the impact of this program in achieving a living environment safe from crime for residents.

Data are gathered through grantee-administered resident surveys. In FY 2002, PHDEP did not receive a separate appropriation, although the activities supported through PHDEP are eligible under the Public Housing Operating and Capital funds. As a result, this indicator was expanded, beginning in FY 2002 to cover all public housing residents.

Results and Analysis. Results of surveys collected for the January 31, 2001 reporting period indicate 69 percent of respondents were satisfied with the safety in and around their homes. This level of satisfaction with community safety is encouraging, but should be viewed as a baseline or starting point because the January 31, 2001 reporting period is the first for which these data are available.

Outcome Indicator 4.3.2.3:
For a majority of Public Housing Authorities receiving PHDEP grants, the number of FBI Classified Part I crimes continues to decrease at an equal or greater rate in PHA properties than in the localities in which they are located.

Background. Part I Crimes constitute the Crime Index of the FBI's Uniform Crime Reports (UCR). They include the crimes of homicide, rape, robbery, aggravated assault, burglary, motor vehicle theft, and larceny/theft. Approximately 17,000 city, county, and state law enforcement agencies representing 96 percent of the U.S. population currently participate in the UCR system. HUD has collected Part I data from the top 100 housing agencies and compared it to citywide crime data for the last few years.

HUD has worked closely with the Department of Justice on developing a system for tracking crime in public housing communities that receive Public Housing Drug Elimination Program grants. PHDEP makes funding available to PHAs to assist in reducing and eliminating drug- related and violent crime in public housing. Grantees are required to submit crime data in semi-annual reports through the Drug Elimination

Reporting System (DERS). DERS participants indicate police agencies as their direct source of data in 42.8 percent of submissions. In FY 2002, PHDEP did not receive a separate appropriation, although the activities supported through PHDEP are eligible under the Public Housing Operating and Capital funds. As a result, this indicator will not be reported beyond this year.

Congress has merged HUD's drug elimination activities in the Operating Subsidy Program in FY 2002. The prior grant program had experienced high unexpended balances.

Results and Analysis. PHDEP grantee reports show that over the 1999-2000 period crime declined more in PHA properties than in the nation as a whole, achieving the performance goal. The number of crimes in PHA properties continued to decline in the 2000-2001 period. Robbery was the only Part 1 crime that increased for PHDEP grantees in either 1999-2000 or 2000-2001.

The table below reports the annual changes in the number of crimes from 1998 through 2000 using UCR crime data in comparison with changes in the crime data reported by the PHDEP grantees in a similar period of time. The UCR data are annualized rates for the cities with PHDEP grants whereas the DERS data represent crime incidents occurring in and around public housing developments during the first 6-months of each year. Although the time periods are slightly different, the data do provide a snapshot of what is happening in those housing agencies that have Drug Elimination Grants during similar periods of time to the UCR data for the cities in which they are located.

Yearly Percentage Changes in the Number of Part I Offenses

	Uniform Crime Reports (nationwide)		Drug Elimination Reporting System	
Offense	1998-1999	1999-2000	1999-2000	2000-2001
All Part I crimes	-6.8%	-0.2%	-31.0%	-36.0%
Homicide	-8.5	0.0	-23.3	-40.1
Rape	-4.3	+0.9	-26.3	-33.8
Assault	-6.2	-0.1	-29.0	-56.7
Robbery	-0.4	-0.4	-31.8	+20.1
Burglary	-10.0	-2.4	-28.1	-34.3
Larceny/Theft	-5.7	+0.2	-32.4	-35.2

The table shows that Part I crime was decreasing by about seven percent in the selected cities from 1998 to 1999 and by less than one percent from 1999 to 2000. At the same time, Part I crime in the public housing communities in these same cities was declining at a more rapid pace with a 31 percent decrease from 1999 to 2000 and a 36 percent decrease from 2000 to 2001 for the first half of each time period. While the percentage reduction in crime is expected to decrease once the full 12-month data becomes available, indications are that the crime reductions experienced in housing developments that have implemented the drug elimination program are more substantial than in the communities in which they are situated.

Outcome Indicator 4.3.2.5:
The share of housing authorities with PHDEP grants who achieve their crime reduction goals increases.

Background. PHDEP grantees are required to submit crime data in semi-annual reports through the Drug Elimination Reporting System. As part of the information submitted, grantees identified locally determined performance goals for specific offenses based on baseline crime data. Each six-month period, ending in June and December, grantees provide updated crime statistics for the preceding 6-month period.

Crime data and goals are provided on a per-offense basis with goals expressed for each type of offense, rather than for all offenses grouped together. Likewise, semi-annual data are provided for each crime type. Each PHA is permitted to report crime for their target properties, the housing agency as a whole, or for citywide and/or countywide areas depending on what is made available through their local law enforcement agencies.

In FY 2002, PHDEP did not receive a separate appropriation, although the activities supported through PHDEP are eligible under the Public Housing Operating and Capital funds. As a result, this indicator will not be reported beyond this year.

Results and Analysis. Based on reports received during FY 2001, fewer PHDEP grantees met their crime reduction goals than in FY 2000, missing the goal of an increased level. However, the overall level of success remains high. With slight variation at each semi-annual reporting period, 75.0 percent or more of the crime goals established by PHDEP grantees have been met during each reporting period since July 31,1999. Starting in July 31, 1999, 80.4 percent of the grantees reported crime levels that were equal to or below their goals based on baseline data. This percentage remained at the 81.0 percent level until the December 2000 reporting period, when the percent of goals met or exceeded dropped to 75.0 percent. The percent of goals met or exceeded started to rise again in the last reporting period for which data are available. The table below shows these trends in the percentage of crime reduction goals being met or exceeded by reporting period:

Percentage of Crime Reduction Goals Met or Exceeded

Reporting period end date	% Goals met or exceeded
June 30, 1999	80.4
December 31, 1999	81.2
June 30, 2000	81.0
December 31, 2000	74.7
June 30, 2001	77.0

It is important to note that the PHDEP grantees have had a high level of success in meeting their crime reduction goals given the multiplicity of challenges facing crime reduction strategies in public housing communities. During only one reporting period did the percentage of crime reduction goals met drop below 75.0 percent (the December 31, 2000 reporting period).

Programmatic Output Indicator 4.3.a:
At least 90 percent of EZs and ECs achieve local goals in serving residents with public safety and crime prevention programs.

Background. HUD has designated 89 Empowerment Zones (EZs) and Enterprise Communities (ECs). HUD measures their performance in seven areas including serving residents with public safety and crime prevention programs. Data represent the sum of outputs taken from plans that are 95 percent completed divided by the sum of projected outputs for all plans. A more detailed discussion of this measure is included under Indicator 4.2.b.5.

Results and Analysis. In FY 2001, 83 percent of EZ and EC projects met goals with respect to serving residents with public safety and crime prevention programs. This level misses the target of 90 percent, and is also below the FY 2000 level of 91 percent.

Outcome Indicator 4.3.3:
The share of central city households reporting accumulations of trash, litter, or junk on the streets decreases by 0.4 percentage points to 15.0 percent in 2001.

Background. This indicator relies upon data from the 2001 American Housing Survey, which will be completed in time to report in 2003. This indicator will not be reported in FY 2003 and beyond because of the difficulty of attributing results to HUD programs.

Strategic Goal 5: Ensure Public Trust in HUD

Strategic Objectives:

5.1 HUD and HUD's partners effectively deliver results to customers.

5.2 HUD leads housing and urban research and policy development nationwide.

Objective 5.1: HUD and HUD's partners effectively deliver results to customers.

Outcome Indicator 5.1.1: HUD's workforce is empowered, capable and focused on results.

Background. HUD has increasingly been moving its organizational focus from process to customer-driven results. Research has shown a strong correlation between employee satisfaction and customer satisfaction. HUD will use periodic employee surveys to assess the Department's performance orientation and to ensure that staff are satisfied with their work environment and receive the training and support necessary to accomplish their jobs. HUD is implementing a new and well-tested employee survey to all employees during FY 2002. The Organizational Assessment Survey (OAS) is being administered by the Personnel Resources and Development Center of the Office of Personnel Management. Survey results will be available to HUD managers and staff online with confidentiality protections. Focus groups will be used to validate and explore the findings of the survey.

Results and Analysis. The OAS employee survey has not yet been completed. Results will be available for reporting next year. During FY 2001, the General Accounting Office (GAO) completed a related survey of HUD managers.[22] GAO reported:

> *"The Department of Housing and Urban Development (HUD) was above the rest of the government in aspects of agency climate, performance measurement, and particularly, in the use of performance information. The agency was statistically significantly higher than the rest of the government in the percentages of managers who reported that employees received positive recognition for helping the agency achieve its strategic goals; managers are held accountable for results; they have output and outcome measures; and they use performance information to set program priorities, allocate resources, coordinate program efforts, and set job expectations. Of the 28 agencies surveyed, HUD had the second greatest number of total items for which the agency was significantly higher than the rest of the government after the General Services Administration and the Small Business Administration, both of which had 1 more. In all other areas, HUD was not significantly different from the rest of the agencies we surveyed." (p.112).*

[22] *General Accounting Office, May 2001. "Managing for Results: Federal Managers' Views on Key Management Issues Vary Widely Across Agencies." (GAO-01-592).*

Selected survey results are shown in the table. One of the key implications of the GAO results is that the Department would benefit from improved balance between the decision-making authority of managers and their accountability for results. To address this issue, HUD is developing a human capital strategy that includes greater delegation of authority to staff in field offices.

Percentage of Federal Managers [at HUD] Who Reported:

That managers/supervisors at their levels were held accountable for results.	79%
That employees in their agencies receive positive recognition for helping agencies accomplish their strategic goals.	47%
That managers/supervisors at their levels had the decisionmaking authority needed to help the agency accomplish its strategic goals.	36%

The data shown here are related but not directly comparable to the forthcoming Organizational Assessment Survey. The OAS results will be analyzed and compared with benchmarks for Federal agencies and private organizations.

Programmatic Output Indicator 5.1.a.0:
HUD continues to receive unqualified audit opinions.

Background. In FY 2000, HUD received a disclaimer of an audit opinion on its FY 1999 financial statements, when major systems conversion efforts disrupted normal account reconciliation activity and precluded timely preparation of financial statements and completion of the audit by the Office of Inspector General. However, HUD subsequently addressed these issues in FY 2000, and as a result, received an unqualified audit opinion on its FY 2000 financial statements in FY 2001.

Results and Analysis. In FY 2002, HUD received an unqualified audit opinion on its FY 2001 financial statements. This is the third time that the Department received a clean opinion, but also the first time a clean opinion was received for two consecutive years.

The result reflects growing financial management stability and the collaboration of program and administrative offices to prepare auditable financial statements in timely fashion. A factor contributing to financial management stability was the OCFO's successful efforts to correct two prior year reportable conditions related to the reliability and security of financial systems, and controls over fund balance with Treasury reconciliations. Despite the success, the Department is mindful of the need for continued progress in resolving the remaining material management control weaknesses and reportable conditions still associated with HUD's financial management systems and operations.

Programmatic Output Indicator 5.1.a:
HUD continues to improve the workforce to reflect the nation's diversity by increasing the representation of under-represented groups.

Background. It is HUD's policy to prohibit discrimination in employment because of race, color, religion, sex, national origin, age and disability, and to promote the full realization of equal employment opportunity. HUD's Hispanic representation of 7.0 percent has consistently remained below the Hispanic Civilian Labor Force (CLF) representation of 8.1 percent for the last several years. Similarly, the representation of white females has been declining, and is well below the CLF level of 35.5 percent. This indicator uses HUD employment data tabulated in the Equal Employment Opportunity Management Analysis System.

	FY 1998 act.	FY 1999 act.	FY 2000 act.	FY 2001 act.	FY 2001 goal
Hispanic representation	6.6%	6.8%	7.0%	7.0%	7.3%
White female representation	28.0%	27.7%	27.0%	26.6%	26.9%

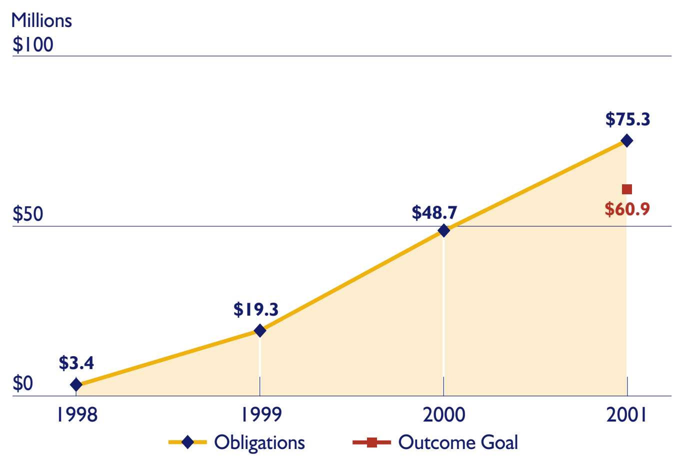
Results and Analysis. At the end of FY 2001, Hispanic representation remained at the FY 2000 level of 7.0 percent, and White Female Representation declined from 27.0 percent to 26.6 percent. Both of these levels fell short of the goal of a 0.3 percentage point improvement.

To improve performance in this area, HUD is continuing the Affirmative Employment Program, which involves increasing the diversity of the applicant pool for job openings. When an opening is posted, HUD sends notices to organizations that represent women and minorities and educational institutions with a high rate of female and minority representation. HUD's efforts do not include any hiring preference based on race or gender.

Programmatic Output Indicator 5.1.b:
Ensure that contractors produce results by increasing annual obligations under contracts with performance-based features by 25 percent to $30 million.

Background. In an effort to improve its contracting services, HUD includes outcome and performance based features in many of its contracts. Performance Based Contracting (PBC) provides contractors with flexibility with respect to how they perform contracts while holding them accountable for the results. Beginning in FY 2003, HUD will measure the percentage of funds that are obligated for new service contracts (over $25,000) that use outcome or performance-based contracting techniques.

HUD Obligations for Contracts with Performance-Based Features



Results and Analysis. During FY 2001, $75.3 million were obligated for contracts with performance-based features. This represents an increase of 54 percent over the previous year, surpassing the goal of a 25 percent increase. Performance Based Contracting is an integral part of HUD's efforts to improve performance and accountability.

Outcome Indicator 5.1.2:
HUD partners are empowered, capable and focused on results.

Background. This indicator uses the widely-utilized method of customer satisfaction surveys in another context, to assess the quality of the relationship between HUD and the intermediary organizations that partner with the Department to deliver results to the final customers. HUD's partners, which include government, non-profit and for-profit entities, provide service delivery for a majority of HUD programs. Between December 2000 and June 2001, HUD completed a survey of eight groups of partners to assess both partner satisfaction with the Department generally and perceptions of the recent management changes at HUD.[23] The partner groups surveyed included: community development directors, public housing agency directors, Fair Housing Assistance Program directors, mayors, multifamily owners (insured, assisted or Section 202/811), and non-profit housing providers.

Results and Analysis. The data collected in 2001 establish the baseline for future performance goals. Overall satisfaction by partners varied greatly, with FHAP directors and mayors highly satisfied and public housing agency directors and multifamily owners less satisfied. Similarly, partner assessments of the HUD 2020 management changes were mixed.

[23] *HUD Office of Policy Development and Research, 2001. "How's HUD Doing? Agency Performance As Judged By Its Partners."* ***www.huduser.org***.

An important finding was that partner groups-or individuals within partner groups-were substantially more likely to hold unfavorable opinions if they perceived the Department's role as "mainly regulating" rather than "mainly support" or "equally providing support and regulating." Nevertheless, majorities within nearly every partner group expressed satisfaction both with the Department's programs and with the way they are run. The exception was PHA officials, many of whom were dissatisfied with the way HUD was running their programs. The most likely cause of PHA dissatisfaction was the controversy that surrounded development of the Public Housing Assessment System.

FY 2001 Baseline Results of HUD Partner Survey

	Percent satisfied or very satisfied with "the HUD programs you currently deal with."	Percent satisfied or very satisfied with "the way HUD currently runs those programs."
Community Development Department partners	87%	73%
Mayoral partners	88%	79%
Public Housing Agency partners	59%	39%
FHAP Agency partners	85%	68%
HUD-Insured Multifamily Housing partners	69%	60%
HUD-Assisted Multifamily Housing partners	62%	53%
Section 202/811 Multifamily Housing partners	88%	78%
Non-profit Housing partners	62%	52%

Partner satisfaction was generally high for the overall quality of service received from HUD staff, as well as for staff responsiveness and competence. The survey also covered the quality and timeliness of information received from HUD and the quality and consistency of guidance the Department provides.

In addition, the American Customer Satisfaction Initiative for Federal Government again surveyed some groups of HUD partners and calculated an American Customer Satisfaction Index (ACSI) that is comparable to private sector benchmarks. For 2001, the ACSI was completed for two major types of FHA partners: lenders (who were not surveyed in HUD's study) and multifamily managers. The ACSI for lending institutions offering FHA loans was 66 percent, compared with an average score of 68.5 percent among the six agencies offering grants or financial services. The ACSI for owners' management agents of FHA assisted and insured housing was 59 percent, compared with an average index of 62.9 percent for the seven agencies engaged in comparable regulatory activities. The latter result of 59 percent provides reasonable validation of the findings of HUD's partner survey shown above (60 percent satisfaction for insured multifamily partners and 53 percent satisfaction for assisted multifamily partners).

Programmatic Output Indicator 5.1.c:
The share of Consolidated Plans that contain measurable performance goals for housing activities and for community development activities increases.

Background. Communities develop 5-year Consolidated Plans to guide their use of CDBG, HOME, Emergency Shelter, and HOPWA grants. Grantees are able to choose from a wide array of activities, so the quality of planning for self-defined objectives is critical. Housing and community development activities were among the highest activities undertaken by the grantees. The last group of Consolidated Plans was received in FY 2000. The next set of plans will be received in FY 2005.

Results and Analysis. Field offices have examined numerous results from standardized assessments of Consolidated/Action Plans received in FY 2000 and FY 2001. However, these assessments did not include a review to determine whether or not the plans contained measurable performance goals for housing and community development activities. This indicator is discussed in further detail under indicator 4.2.c.

Programmatic Output Indicator 5.1.d:
Among Consolidated Plan grantees, 100 percent are reviewed remotely and 20 percent are reviewed onsite for compliance with their plans.

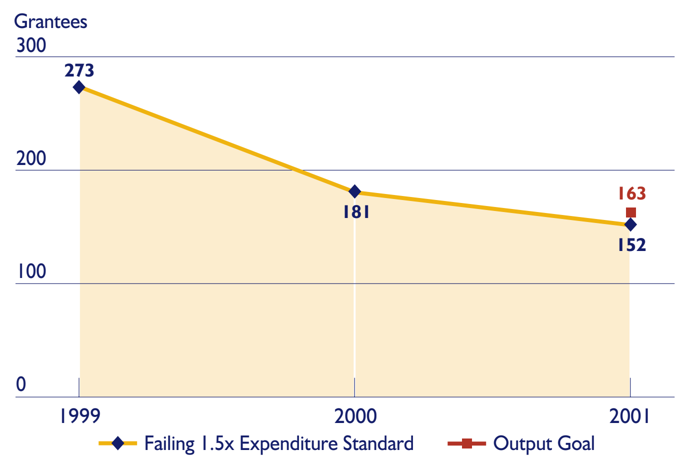
Background. Communities develop 5-year Consolidated Plans to guide their use of CDBG, HOME, Emergency Shelter, and HOPWA formula grants. This indicator measures the degree to which HUD field staff monitor grantees for compliance with their Consolidated Plans. Because Consolidated Plan grantees are regularly reviewed remotely, that part of the measure will not be tracked after this year. In FY 2002, the goal for onsite review is increased to 35 percent, and the goal for FY 2003 is a 5 percent increase over that level.

Results and Analysis. In FY 2001, all Consolidated Plan grantees were reviewed remotely, and 42 percent were reviewed on site for compliance with their plans. This more than doubled the goal of 20 percent although it was 9 percentage points below the FY 2000 level of 51 percent. The high level of compliance review, along with the increased goals in future years, reflect the Department's commitment to ensuring that HUD funds are spent in accordance with applicable laws and regulations.

Programmatic Output Indicator 5.1.e:
The number of CDBG entitlement grantees that fail to meet regulatory standards for timeliness of expenditure decreases by 10 percent to 179.

Background. Entitlement communities have extensive flexibility to use CDBG for locally defined purposes. However, they must use funds for national objectives and implement their activities in fiscally responsible ways. To meet timeliness standards, grantees may not have undrawn funds in their line of credit exceeding 1.5 times the value of the most recent grant, as measured 60 days before the following grant. This measure uses data from the Integrated Disbursement Information System. Beginning in FY 2002, HUD will also track the number of grantees with undrawn funds of more than 2.0 times the value of the most recent grant.

CDBG Grantees Failing the 1.5 Timeless Standard



Results and Analysis. As of the end of September 30, 2001, the number of untimely entitlement grantees was reduced by 29 from FY 2000 levels to 152. The 16 percent reduction surpassed HUD's goal of a 10 percent reduction to 163.

The goal was achieved largely because CPD held four sessions around the country and invited all untimely grantees to discuss the issues impacting poor performance. The sessions included peer-to-peer guidance. Also, CPD Field Offices worked diligently with their untimely grantees, monitoring progress month-by-month and sending letters to grantees that were not making adequate progress. CPD embarked on a policy to bring all entitlement grantees with program years starting between May and October into compliance with the drawdown standard by the end of FY 2003. Grantees with program years starting between January and April will be brought into compliance by the end of FY 2004. Any grantee not in compliance within the established timeframe would have its grant reduced by the amount of funds that exceed the 1.5 drawdown standard.

Outcome Indicator 5.1.3:
The average satisfaction of assisted renters and public housing tenants with their overall living conditions increases.

The recipients of HUD housing assistance form one of the HUD's largest groups of customers. Resident satisfaction is influenced by the quality of management by housing agencies and private multifamily development managers. Data for this indicator are from the Real Estate Assessment Center's Resident Assessment Subsystem (RASS). In FY 2002 and 2003, the goal for this indicator is to increase resident satisfaction by 1 percentage point per year.

Results and Analysis. During FY 2001, REAC conducted a random sample survey of 631,261 HUD assisted renters and public housing tenants, 86 percent of whom were satisfied or very satisfied with "overall living conditions." These results will serve as a baseline for future comparison.

Outcome Indicator 5.1.4:
The share of public housing units managed by troubled housing authorities decreases by 5 percentage points.

Background. HUD uses the Public Housing Assessment System (PHAS) to evaluate the management capability of public housing authorities based on four categories: physical condition, management operations, financial condition, and resident satisfaction. Housing authorities with overall scores below 60, or scores below 18 in any of the individual components, are classified as substandard or troubled. FY 2001 PHAS scores were considered advisory, so no housing authorities were actually designated as troubled/ substandard under PHAS. Beginning in FY 2002, HUD will measure progress in reducing the number of units managed by troubled housing authorities that are assigned to a Troubled Agency Recovery Center (TARC). The new measure will focus more on HUD's efforts to improve troubled housing authorities.

Results and Analysis. In FY 2001, 18.7 percent of public housing agencies representing 25.1 percent of public housing units received a PHAS score that would have resulted in the agency being designated as troubled/substandard had the scores not been advisory. This level represents a baseline for future comparison. A more complete discussion of PHAS scores is included in Goal 5 of the Discussion and Analysis of Operations section of this report.

Outcome Indicator 5.1.5:
The share of tenant-based Section 8 assistance managed by troubled housing authorities decreases by 5 percentage points.

Background. Similar to Outcome Indicator 5.1.4, this indicator tracks the share of assistance under the housing choice voucher program that is vulnerable to mismanagement by troubled housing agencies. Using the Section Eight Management Assessment Program (SEMAP), HUD rates housing agencies based on tenant selection, rent reasonableness determinations, income determination, housing quality standards inspections and enforcement, expanding housing opportunities, deconcentration, lease-up rates, FSS participation, and correct rent calculations. The first PHAs that were scored under SEMAP were those PHAs with fiscal year end dates of December 2000. Accordingly, a full year's worth of SEMAP scores will be available in fiscal year 2002, at which time a baseline will be set.

Outcome Indicator 5.1.6:
Among households living in public housing and subsidized multifamily properties, the share living in developments that have substandard financial management decreases by 5 percentage points.

Background. HUD evaluates the financial management of both public housing agencies and privately owned multifamily properties based on generally accepted accounting principles. Data for public housing represent housing agencies that submitted their annual report between 10/1/00 and 9/30/01. Data for multi-family assisted properties represent projects with fiscal years that ended between 12/31/00 and 12/30/01. In FY 2003 the target was reduced to a 2.5 percentage point increase.

Results and Analysis. At the end of FY 2001, 8.8 percent of PHAs representing 6.3 percent of public housing units were rated as financially substandard based on advisory scores. This total does not include PHAs that were troubled overall, including being financially substandard. This level will serve as a baseline for future comparison. For assisted multifamily properties, 30.4 percent had financial compliance deficiencies. This level misses the target and is in fact an increase over the 28.6 percent of properties in 2000. Reasons for this increase are discussed in Goal 5 of the Discussion and Analysis of Operations section under the heading of "Strengthening HUD's Oversight."

Outcome Indicator 5.1.7:
The share of units that meet HUD-established physical standards increases by 1 percentage point to 64 percent of public housing units and 79 percent of assisted multifamily units.

Background. HUD inspects units of public housing and assisted multifamily housing to determine their physical condition. Because compliance with physical standards reflects the ability of HUD partners to effectively deliver results to customers, the indicator has been included under this objective. The measure is discussed in greater detail as Indicator 1.3.3 and under the Discussion and Analysis of Operations section, where it supports the Objective 1.3: America's housing is safe and disaster resistant.

Results and Analysis. In FY 2001, 94.1 percent of properties representing 93.1 percent of assisted multi-family units met HUD-established physical standards. This represents a substantial increase over the FY 2000 level of 86.2 percent of units. For public housing, 90.7 percent of properties representing 83.6 percent of units met HUD-established physical standards. This was also a significant increase over the FY 2000 level of 73.3 percent of units.

There were some changes to the baseline physical condition standards used in 1999 that would account for modest project score increases of a few points in the current profile, but most of the increases in scores are attributed to actual improvements to project physical conditions.

Outcome Indicator 5.1.8:
The average number of life-threatening health and safety deficiencies observed per 100 properties inspected decreases by 10 percent annually between 1999 and 2001, from 100.8 to 81.7 in public housing and from 95.3 to 77.2 in assisted multifamily housing.

Background. This indicator measures the number of units located in public and assisted housing properties with exigent health and safety deficiencies. Because the physical quality of public and assisted housing reflects the ability of HUD partners to effectively deliver results to customers, the indicator has been included under this objective. The measure is discussed in greater detail as Indicator 1.3.4 and under the Discussion and Analysis of Operations section, where it supports the Objective 1.3: America's housing is safe and disaster resistant.

Results and Analysis. As of the end of FY 2001, 46.9 percent of properties and 18.4 percent of public housing units, had life-threatening deficiencies. For assisted multifamily housing, 37.3 percent of properties and 15.4 percent of units, had life-threatening deficiencies.

Programmatic Output Indicator 5.1.f:
The unit-weighted average PHAS score increases.

Background. The Public Housing Assessment System (PHAS) assesses the performance of Public Housing Agencies, which can receive scores of up to 100 based on their physical and financial condition (30 points each), management performance (30 points), and resident satisfaction (10 points). Data represent the most recent assessments completed for each agency as of the end of FY 2001. In FY 2002 and 2003, HUD has set a target of a 5 percent increase in PHAS scores.

Results and Analysis. As of the end of FY 2001, the unit-weighted average PHAS score was 80.2, which is an increase over the FY 2000 level of 78.7. For both fiscal years 2000 and 2001, PHAS scores were considered advisory. A more complete discussion of PHAS scores is included in Goal 5 of the Discussion and Analysis of Operations section of this report.

Programmatic Output Indicator 5.1.g:
The household-weighted average SEMAP score increases.

Background. Similar to PHAS scores, Section Eight Management Assessment Program (SEMAP) scores are meant to track the capability and accountability of housing authority partners. The first PHAs that were scored under SEMAP were those with fiscal end dates of December 2000. Accordingly, a full year's worth of SEMAP scores will be available in fiscal year 2002, at which time the baseline can be determined.

Programmatic Output Indicator 5.1.h:
The share of tenant-based Section 8 assistance managed by housing authorities that score highly for income verification increases.

Background. Tenant income verification is a critical tool that housing authorities have to control the costs of providing tenant-based assistance. The income verification component of SEMAP awards a high score when the incomes of 90 percent of households have been verified by a third party that income and utility allowances are calculated correctly. The first PHAs that were scored under SEMAP were those with fiscal year end dates of December 2000. Accordingly, a full year's worth of SEMAP scores will be available in fiscal year 2002, at which time the baseline can be determined.

Programmatic Output Indicator 5.1.i:
The share of tenant-based Section 8 assistance managed by housing authorities that score highly for determination of rent reasonableness increases.

Background. Determination of whether rents are reasonable is another tool that housing agencies have to control costs in the housing choice voucher program. Through the rent reasonableness component of SEMAP, HUD will award a high score when 98 percent of randomly-selected tenant files have documented determinations that the rent for the unit is reasonable in accordance with the housing authority's written method. The first PHAs that were scored under SEMAP were those with fiscal year end dates of December 2000. Accordingly, a full year's worth of SEMAP scores will be available in fiscal year 2002, at which time the baseline can be determined.

Programmatic Output Indicator 5.1.j:
The share of households for which rent determinations are correct increases for public housing and for project-based Section 8.

Background. As one of HUD's efforts to measure program performance and identify areas where improvements are needed, in 2001 the Department completed a national study of assisted housing program sponsor subsidy determinations. On-site tenant interviews, file reviews, and independent third-party income verifications were conducted.

Results and Analysis. The study found that substantial errors were being made in the income and rent determinations that set the subsidies HUD pays on behalf of families who receive public housing and Section 8 program assistance. It estimated that, due to a variety of income calculation and other errors, over $600 million in annual rent overpayments were made and that rent underpayments were $1.7 billion-nearly three times as much as overpayments. (See the discussion under Goal 1 in the Discussion and Analysis of Operations section for more information.)

A new error measurement baseline is currently being developed that takes into account two additional types of error. The first is deliberate misreporting of income by tenants, which is being measured by matching IRS data against data for tenants in the sponsor error measurement study, which will be available in early 2002. The other is the addition of subsidy billing errors from a study whose results will be available in the second quarter of 2002.

The error measurement efforts and a number of proposed correction actions have been prepared under the guidance of HUD's Rental Housing Integrity Improvement Program (RHIIP) task force. The RHIIP effort was initiated to ensure that the right benefits go to the right households. This goal is achieved by improving subsidy determination accuracy, and by reducing excess subsidy payments so as to free up funds for eligible families.

Programmatic Output Indicator 5.1.k:
Among high-risk or troubled multifamily projects referred to EC, the share that have aged pending enforcement and the share that have aged during enforcement processing will decrease.

Background. The Departmental Enforcement Center (DEC) addresses serious problems of distressed multifamily properties that have failed physical and financial inspections and require corrective action by owners, lenders and management agents. This indicator tracks the flow of cases through DEC to promote their timely resolution. The indicator was modified in FY 2002 to track three goals: reducing the number of cases as of the beginning of the fiscal year by 80 percent, closing 75 percent of cases received during the fiscal year that have been in the DEC for 180 days, and closing cases received during the fiscal year in an average of 180 days or less. Because the new indicator provides more detail with respect to the operations of the DEC, it is being reported here.

Results and Analysis. During FY 2001, the DEC achieved their three management goals. DEC reduced the number of Multifamily cases that were in the DEC inventory as of September 30, 2000 by 83 percent, exceeding the goal of 80 percent. The DEC closed 80 percent of all cases received in FY 2001 that had been in the DEC for 180 days, exceeding the goal of 75 percent. During FY 2001, cases were closed in an average of 121 days, exceeding the goal of 180 days.

Sanction notices to participants for suspension and/or proposed debarment were completed for 80 percent of the cases referred during the fiscal year for indictment, civil judgment, conviction and fact-based cases. A more detailed description of the results and benefits of the DEC appears in Goal 5 of the Discussion and Analysis of Operations section of this report.

Outcome Indicator 5.1.9:
HUD automated data systems are rated highly for usefulness, ease of use, and reliability.

Background. In the FY 2001 APP, HUD established a pilot project to develop a performance measurement methodology for information systems. As reported in the FY 2000 PAR, the pilot was completed and the performance measurement methodology was adopted for the Information Technology Investment Portfolio System (ITIPS), HUD's strategic capital planning tool for information systems. Variances in IT project performance goals are addressed through quarterly IT investment management control reviews. This evolution is reflected in the performance indicator in the FY 2003 APP, "The percentage of existing automated data systems and system development projects that achieve their performance goals increases by 5 percent from the FY 2002 baseline."

Results and Analysis. Although the FY 2001 performance indicator did not define a specific milestone or goal, the pilot project discussed in the indicator was successfully completed during FY 2000. In the first quarter of FY2001 HUD established performance measures for the entire IT portfolio. In FY 2002 the Office of the Chief Information Officer (OCIO) will continue to align IT project performance measurement with HUD's business processes through the business architecture component of the Enterprise Architecture.

OCIO worked with program offices to develop performance measures for their IT systems and projects. The numerous systems goals tracked by the FY 2003 performance indicator include measures of system availability, response time, number of trouble calls, incidents of lost or damaged data, security compliance, and workload reductions for users. This results-based approach to IT management ensures that HUD complies with the Clinger-Cohen Act, OMB guidance for capital asset planning, and GAO recommendations. It also supports the Department's maturing Enterprise Architecture efforts and enables HUD management to be assured that systems are producing reliable data that will meet user needs and help HUD manage its business.

Programmatic Output Indicator 5.1.L.1:
By the end of FY 2001, an increased number of mission-critical data systems will earn data quality certifications based on objective criteria.

Background. The Office of Chief Information Officer (OCIO) oversees information technology investments and ensures that information systems support core business processes and achieve mission critical goals. In 2000, OCIO launched an enterprise-wide initiative, the Data Quality Improvement Program, and established a Data Control Board to coordinate data quality issues. Through the Data Control Board, OCIO is working in partnership with program offices to prioritize efforts and to use DQIP to provide accurate, complete, consistent, timely, and valid data to achieve Departmental data quality improvement. The FY 2002 APP and FY 2003 APP establish the goal of assessing, cleaning and certifying eight additional mission-critical data systems by the end of FY 2003.

Results and Analysis. During FY 2001, the OCIO achieved this goal by awarding data quality certifications to two mission-critical data systems, the Line of Credit Control System (LOCCS) and the Program Accounting System (PAS). The systems, owned by the CFO, are crucial for the Department's financial management. LOCCS is a payment control tool and post-award financial grants management system. PAS is an integrated subsidiary ledger for the Department's grant, subsidy, and loan programs that interacts with HUDCAPS. OCIO's certification of these systems reflects is based on the acceptable compliance of data in critical fields with HUD business rules.

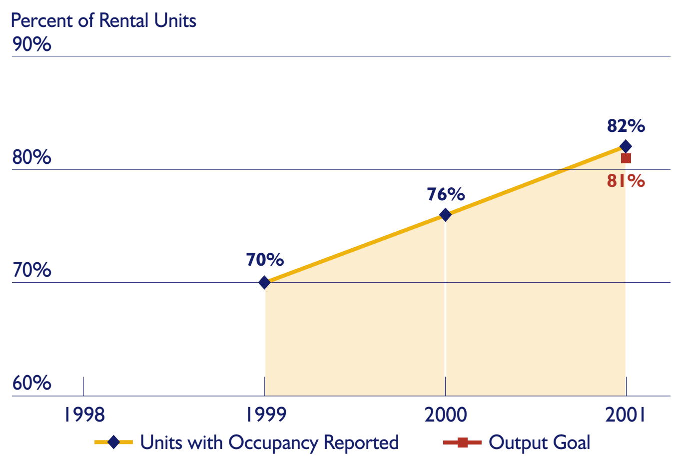
The two certified systems were among seven mission-critical systems for which OCIO completed data quality assessments during FY 2001. The others were HUD Central Accounting System (HUDCAPS), Real

Estate Management System (REMS), Multifamily Tenant Characteristics System (MTCS), Single Family Acquired Asset Management System (SAMS), and Tenant Rental Assistance Certification System (TRACS). During FY 2002, the data quality deficiencies identified during the assessments will be corrected by cleaning data and implementing system edits to prevent further data corruption. The remainder of the seven systems are expected to be certified by the end of FY 2002. For further information about initiatives to improve data quality, see the discussion under Goal 5 of the Discussion and Analysis of Operations section.

Programmatic Output Indicator 5.1.m.1: The share of HOME-assisted rental units for which occupancy information is reported increases by 5 percentage points to 80 percent.

Background. This indicator tracks the reporting by Participating Jurisdictions into HUD's Integrated Disbursement and Information System (IDIS) of data describing the households who occupy HOME-assisted rental units. This information helps HUD assess compliance with HOME-assisted tenant income limits, as well as determine who is benefiting from the HOME program. Data entered by participating jurisdictions in HUD's Integrated Disbursement and Information System are used to track quarterly performance. Ongoing HUD-sponsored IDIS training and data clean-up efforts are used to consistently improve data quality and reliability. Future annual performance plans will continue to track the share of HOME-assisted rental units for which occupancy information is reported.

HOME-Assisted Rental Units with Occupancy Information Reported



Results and Analysis. During FY 2001, 82 percent of rental units had occupancy information reported in IDIS. This is a 6 percentage point increase over the FY 2000 level of 76 percent, and exceeds the goal of a 5 percentage point increase. HUD relies on Participating Jurisdictions to enter data into IDIS. Currently, IDIS permits additional data entries even though complete occupancy data has not been entered. HUD will continue to use ongoing data clean-up and intensive follow-up with Participating Jurisdictions to improve data quality.

Programmatic Output Indicator 5.1.m.5: The share of completed CDBG activities for which grantees satisfactorily report accomplishments increases to 90 percent.

Background. This indicator tracks the level of reporting of CDBG grant activities into the Integrated Disbursement Information System, which collects data for HUD's block grant programs that serve local jurisdictions. Reporting for CDBG is measured by the proportion of completed activities for which grantees have reported accomplishments data, based on activities justified under three national objectives that serve residents with low and moderate incomes: jobs (LMJ), housing (LMH) and limited clientele (LMC). To meet the threshold for satisfactory reporting, each grantee must report accomplishments for at least 90 percent of activities funded under these objectives within three months after project completion. Typical accomplishments reported for the three objectives are numbers of jobs created, units constructed, and minority persons served. The remaining national objectives, low/mod area benefit and slums/blight, are not included in this indicator. Reporting rates for accomplishments data currently stand at about 50 percent of activities under the three national objectives. IDIS is the source of the data used for this measure.

Results and Analysis. During Fiscal Year 2001, CDBG grantees reported on 44,021 CDBG-funded activities classified as either Low/Mod Housing, Low/Mod Jobs or Low/Mod limited clientele that were completed. Of these activites that were reported as completed, 38,498 had accomplishments reported. The reporting rate of accomplishments for these completed activities is 87.5%. This rate is 2.5% below the FY 2001 APP goal of 90% rate of reporting accomplishments for these activities. CPD is currently undertaking a data clean-up to boost the reporting rates for completed activities for the remaining 12.5% of the activities that were not reported on properly. Upon completion of the data clean-up effort, CPD expects that we will meet the 90% rate for reporting of accomplishments for completed CDBG activities.

Programmatic Output Indicator 5.1.n:
Sanctions are taken or forbearance is granted for cause for every PHA that reports less than 85 percent of its program recipients into the MTCS according to MTCS standards.

Background. The Multifamily Tenant Characteristics System (MTCS) provides HUD with performance information regarding renters assisted with public housing or Housing Choice Voucher programs. At the beginning of FY 2001, HUD's Office of Public and Indian Housing (PIH) set an internal goal of sanctioning 200 PHAs for Section 8 and public housing combined. The goal was based on the number of PHAs reporting under 85 percent as of the semi-annual assessment dated December 31, 1999. Because PIH was not able to complete the appeals process for the June 2001 assessment, only the December 2000 period was included toward the FY 2001 goal. As a result, PIH adjusted the estimated number to be sanctioned from 200 to 100.

Results and Analysis. In FY 2001, HUD exceeded this goal by sanctioning 139 PHAs. Since January 2000, PIH has increased MTCS reporting rates from at least 100 percent to 105 percent for Section 8, and public housing remained at 95 percent by May 2001, which is when the MTCS system was shut down to allow full implementation of the new PIC system.

For Section 8, PIH imposed the 10 percent reduction in administrative fee sanction 67 times on PHAs reporting under 85 percent without forbearance approval from HUD for the assessment period covering December 2000, implemented in FY 2001. In addition, PIH determined the 19 PHAs ineligible to apply for FY 2001 funding under Fair Share, Mainstream, Designated Housing, Certain Development, and New Approach.

For Public Housing, PIH determined in 72 instances that PHAs were ineligible to apply for FY 2002 HOPE VI funding because of reporting under 85 percent without forbearance approval from HUD for the December 2000 assessment period, implemented in FY 2001. As a result of the increase in MTCS reporting rates, the number of PHAs sanctioned declined from December 1999 to December 2000 for both Section 8 (from 136 to 67) and public housing (from 120 to 72).

Objective 5.2: HUD leads housing and urban research and policy development nationwide.

Outcome Indicator 5.2.1:
PD&R work products are rated more highly for usefulness, ease of use, reliability, objectivity, and influence.

Background. The Office of Policy Development and Research (PD&R) is charged with making available housing and urban conditions data to support program operations and external research, evaluating HUD programs, and preparing studies on housing conditions, policy and technology. In FY 2001, PD&R surveyed stakeholders and research users to determine whether they found PD&R research products relevant, useful, and well-prepared. The stakeholders and users interviewed included academics, nonprofit researchers, building professionals, trade and manufacturing associations, financial institutions, and housing advocacy groups. Reflecting the validation provided through this baseline research, this indicator has been revised in the FY 2003 APP to measure the proportion of users who rate research products as "valuable." Because this measure is based on a survey, new results will not be available annually.

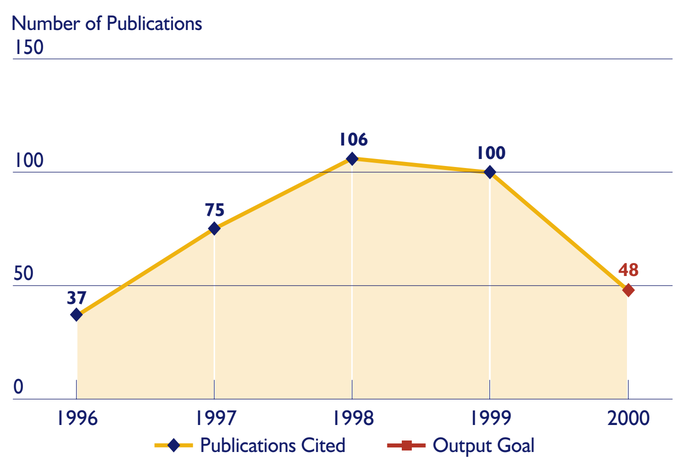
Results and Analysis. The FY 2001 baseline survey findings[24] indicate that HUD research was rated highly, with 81 percent of respondents rating the products as "valuable." The research was based on a sample of the most intensive users. Therefore, results may not be representative of all users, especially of infrequent users. Future surveys will include Congressional and other Federal users and stakeholders.

Programmatic Output Indicator 5.2.a:
HUD research products are used more widely, as measured by the number of citations in the policy literature.

Background. The academic community frequently uses the number of citations of a publication in the research literature as an indication of their credibility and usefulness. This indicator tracks the citations of published HUD reports in the policy literature. In FY 2001, PD&R prepared 36 research publications and made them available both to specific research and policy audiences and to the public at large. The primary means of distribution is PD&R's clearinghouse, HUD USER, which currently serves more than 17,000 active customers and approximately 1,500 new users each year. The implementation of the HUD USER web site and marketing efforts through a new listserv contributed to a 60 percent increase in the circulation of top PD&R documents. This indicator has been replaced in the FY 2003 APP by measures of publications disseminated and downloadable files accessed through HUD USER. The revised measures provide a more valid representation of PD&R products in an increasingly digital environment.

Results and Analysis. A baseline study of PD&R research completed during FY 2001 (see Indicator 5.2.1) found that 137 publications were cited in 57 journals during the period from calendar years 1995-2000. During the last full year covered, 1999, there were 100 PD&R publications cited. A total of 48 publications were cited during the ten-month period ending October 31, 2000, suggesting that the number of citations throughout 2000 would have been lower than in 1999. An automated search of the Institute for Scientific Information's Social Science Citation Index was the primary engine for examining citations in journals published, supplemented by a manual search of major housing, planning and urban development journals not included in the database.

PD&R Publications Cited by Journal Year



[24] *HUD Office of Policy Development and Research, 2001. "Assessment of the Usefulness of the Products of the Office of Policy Development and Research." Available at* ***www.huduser.org****.*

Summary of Recent Research for HUD's Strategic Goals

Each year, the Department of Housing and Urban Development completes a number of program evaluations and studies of significant policy topics. These studies provide a level of detail and confidence about programmatic impacts that performance measures alone cannot capture. The Department uses the findings of this research to shape program management and policy direction.

This Appendix presents the primary findings of selected research reports completed since the beginning of FY 2001. Unless otherwise noted, most of these documents are available from HUD USER,[25] which is sponsored by the Office of Policy Development and Research.

Goal 1: Increase the availability of decent, safe, and affordable housing in American communities.

The following is a selected list of evaluation and research efforts relevant to Strategic Goal 1 that were completed since the beginning of FY 2001. HUD also publishes a periodical, U.S. Housing Market Conditions, that provides data and analysis about housing markets, every quarter.

Housing Finance

- ***Assessing Problems of Default in Local Mortgage Markets***, March 2001. This report presents findings from a statistical study examining whether high default rates for loans insured by the Federal Housing Administration are concentrated within a particular set of neighborhoods or among a particular set of lenders. The study analyzed loans originating in 1992 or 1994 in 22 urban areas, using three different measures of default. The report compares the study's findings to those of a similar National Training and Information Center (NTIC) study that included 10 of the same metropolitan areas. The study's main findings are that 1) FHA is extending home ownership to those less well-served by the conventional market; 2) some of the differences in default rates across neighborhoods and lenders are plausibly traceable to characteristics of the borrowers and loans; 3) income does not completely determine default behavior; 4) there are far fewer high-default neighborhoods and lenders than identified by the NTIC; and 5) the identification of high-default neighborhoods and lenders varies with the loan origination year, indicating that some problems that generate high default rates are temporary. The study also examined interarea and intertract differentials through an examination of default at the level of the individual loan.

- ***Neighborhood Effects of Mortgage Default Risk***, March 2001. This report complements the study above by examining the effect of neighborhood characteristics, particularly income and race or ethnicity, on defaults of loans insured by FHA. The report is based on a statistical analysis of default-related factors and neighborhood and individual characteristics, using a data source that includes information on each borrower's race as well as measurements of race at the census tract or zip code level. The data is from a sample of FHA-

[25] *Documents can be ordered, and in many cases downloaded, at http://www.huduser.org.*

insured loans originating in 1992 or 1994 in 22 Metropolitan Statistical Areas. The study used estimating techniques that can control for events occurring after loan origination, as well as borrowers' credit history. The study found that neighborhood characteristics have effects on defaults separate and distinct from the same characteristics at the individual level. The study also found little evidence that race or income differences in the probability of default is traceable to differences in probability of refinancing. Neighborhood defaults may act directly as a trigger for later defaults, and neighborhood price effects induced by lagged defaults also can affect individual default probabilities. The reason for these effects may be that defaults produce vacant properties, which leads to neighborhood decay.

- ***The GSE's Funding of Affordable Loans: A 1999 Update***, December 2000. (Housing Finance Working Paper Series.) This study examines the borrower and neighborhood characteristics of single-family mortgages purchased by Fannie Mae and Freddie Mac. Both GSEs have improved their affordable lending performance since 1992, but continue to lag the conventional conforming loan market in funding mortgages for lower-income buyers and for underserved neighborhoods.

- ***Study of Multifamily Underwriting and the GSEs' Role in the Multifamily Market***, August 2001. This report presents findings from an evaluation of the role of Government Sponsored Enterprises in providing funding for affordable multifamily properties and the development of liquidity in the multifamily market. The study found that the GSEs' leadership in the multifamily mortgage market is principally one of setting the standards for underwriting and financing properties. Both GSEs have been attaining affordable housing goals, but are not viewed as playing a leadership role in the affordable segment of the market in the four cities studied. The GSEs' multifamily purchases do not appear to be contributing consistently to the mitigation of excessive costs of mortgage financing facing small properties.

- ***Study of the Use of Credit Enhancements by Government Sponsored Enterprises***, August 2001. This report looks at how and why credit enhancements are used by GSEs in both their single- and multi-family mortgage purchase programs. Credit enhancements refer to a variety of approaches designed to reduce the credit risk exposure of investors in financial instruments backed by mortgages; credit risk is transferred from the owners of the mortgage-backed instruments to the credit enhancer.

- ***Subprime Markets, the Role of GSEs, and Risk-Based Pricing*** (forthcoming). This report addresses how the use of risk-based pricing and the development of automated underwriting systems are changing the mortgage lending environment, including subprime lending. It finds that subprime lenders make relatively extensive use of manual underwriting and specialized techniques for underwriting and pricing loans. The study notes that Fannie Mae and Freddie Mac are moving slowly into the subprime market, but with a large potential role. It finds consensus in the industry that the GSEs should be able to manage the greater risks, assuming they can adapt their automated underwriting systems appropriately. The study notes the importance of proper servicing in the subprime lending business.

Rental Housing Subsidies

- ***An Assessment of the Availability and Cost of Financing for Small Multifamily Properties***, August 2001. Small multifamily properties account for a large share (88 percent) of the unsubsidized, affordable rental housing stock. Given the importance of smaller rental properties to the affordable housing supply, the availability and cost of financing is an important public policy concern. This report found that smaller multifamily properties do not have access to as many sources of financing as larger properties, and as a result tend to utilize loans that are more expensive.

- ***Assessment of the Loss of Housing for Non-Elderly People with Disabilities***, December 2000. Case studies were conducted in 10 metropolitan areas to examine factors affecting admission of the non-elderly disabled to HUD-assisted elderly housing, including the effects of designating housing for the elderly as authorized by the Housing and Community Development Act of 1992. That Act allowed property owners to restrict the availability of units intended for the elderly to people 62 or older. Prior to 1992, Federal housing laws defined "elderly" to include disabled persons. The study found that people with disabilities face numerous barriers to finding and obtaining housing. While relatively few owners changed their occupancy policies after 1992, marketing and management practices appear to have more influence on tenant mix than does policy.

- ***National Evaluation of the Housing Opportunities for Persons with AIDS Program (HOPWA)***, December 2000. The first national evaluation of HOPWA reveals that the program is helping to meet the needs of its clients. The report provides data on characteristics of grantees, housing assistance providers, processes services and clients. Impacts of assistance on housing status and client perceptions of assistance are reported.

- ***Quality Control for Rental Assistance Subsidies Determinations***, June 2001. This report provides national estimates of the extent, severity, costs, and sources of income and rent determination errors by providers of Public Housing and Section 8 housing, based on 600 public housing and Section 8 projects in the United States and Puerto Rico. The study found that 22 percent of all households paid an average of $56 more than they should, but 34 percent paid an average of $95 less than they should, for a net annual cost of $1.04 billion. The report discusses sources of rent errors, policy implications, and recommendations for reducing errors. The study also examined whether rents charged for Section 8 tenant-based program units are reasonable compared to rents in the private, unassisted market. The study found that almost all housing authorities have adopted formal rent reasonableness policies and that for the most part, the rents charged were reasonable.

- ***Tools and Strategies for Improving Community Relations in the Housing Choice Voucher Program***, September 2001. This study examines the strategies that public housing agencies have used to address concerns raised by local residents regarding participants in the Housing Choice Voucher program. The report includes a series of recommendations for how public housing agencies can help to minimize conflict by identifying and addressing complaints at an early stage and by working in good faith to meet the concerns of the community.

- ***Study of the Ongoing Affordability of Home Program Rents***, August 2001. This study examined the extent to which rental properties developed with HOME program subsidies continue to remain affordable to and occupied by families with low incomes for the period required by the law. The study found that slightly more than 95 percent of the HOME units sampled had rents at or below program limits. Non-compliant properties had only a small number of units that failed to meet the limits. Reasons for non-compliance included property manager confusion about treatment of other rental subsidies or misunderstandings about the appropriate rent limit to be used.

- ***Study of Section 8 Voucher Success Rates, Vol.1 and Vol.2***, November 2001. The success rate is the proportion of families issued a voucher who are able to use it to lease a suitable apartment or house within the timeframe provided (and thus the success rate differs from the utilization rate, which is the subject of a forthcoming study). The national success rate within metropolitan areas in 2000 was found to be 69 percent. This is lower than the success rate during the early 1990s, but about the same as rates in the 1980s. Success rates were found to vary with local market conditions. However, some housing agencies had relatively high success rates even in tight markets. Importantly, success rates did not differ by such characteristics as the race, ethnicity, gender, or disability status of the head of household. This suggests that the voucher program works well for many different types of households, with only a few exceptions. A qualitative study of success rates in rural areas found that voucher success rates vary widely across the five sites that were examined. The report concludes that waiting times for a voucher are shorter in rural areas than in cities or suburbs. The report also finds, contrary to conventional wisdom, that the rental housing stock in rural areas appears to be of acceptable quality.

- ***The Uses of Discretionary Authority in the Tenant-Based Section 8 Program***, January 2001. This report documents how different Public Housing Agencies have used the discretion permitted by the Quality Housing and Work Responsibility Act (QHWRA) of 1998 in determining tenant selection preferences, rent and other policies for voucher programs. Some PHAs attempt to provide a safety net for those in greatest need, others focus on self-sufficiency, and others combine both missions. The report also includes a discussion of evaluation impacts and next steps in evaluating the impacts of QHWRA on policies and practices of PHAs.

- ***Report on Worst Case Housing Needs in 1999: New Opportunity Amid Continuing Challenges***, January 2001. The number of renter households with worst case housing was found to decrease by 8 percent between 1997 and 1999 despite an accelerated reduction in the number of affordable rental housing units in the same period. While the decrease reverses a 10-year trend of increases, some 4.9 million renter households continue to have worst case needs. An increase in the incomes of low-income households was primarily responsible for the improvement.

Housing Technology and Safety

- ***Community Guide to Factory Built Housing***, September 2001. This guidebook for nonprofit developer groups discusses the use of factory-built housing as an affordable housing alternative.

- ***Barriers to the Rehabilitation to Affordable Housing (two volumes)***, May 2001. This report finds that barriers to rehabilitation of affordable housing are diverse and encompass economic constraints, professional inadequacies, regulatory and programmatic problems, and various other issues.

- ***Development of Frost Depth Maps for the United States***, July 2002. This report provides a methodology and estimates of frost penetration depths across the United States. The information is needed for building codes, among other engineering design specifications, to ensure that footings and utilities are buried at the proper depths.

- ***Evaluation of the HUD Lead Hazard Control Grant Program: Early Overall Findings***, 2001.[26] This early report shows that mean dust lead loading levels declined substantially in units treated by 14 grantees and continued to remain below clearance standards after three years. One year after their units were treated and cleared, the geometric mean age-adjusted blood lead levels of children in the units had declined by 26 percent.

- ***Industrializing the Residential Construction Site: Phase II Information Mapping***, June 2001. This report analyzes problems of information management in the residential construction industry and makes recommendations to remedy information flow problems.

- ***National Housing Quality: Quality Assurance System for Wood Framing Contractors***, December 2000. This manual presents a model quality assurance system for residential wood framing construction. The system is designed to help construction firms achieve more consistent framing quality, code compliance, cost reduction, and improved customer satisfaction.

- ***National Survey of Lead and Allergens in Housing Final Report: Volume 1, Analysis of Lead Hazards***, April 2001.[27] This survey was jointly sponsored by HUD and the National Institute of Environmental Health Sciences to assess the potential household exposure of children to lead and indoor allergens. The lead component of the survey provides current estimates of lead levels in dust, soil and paint in the U.S. housing stock. The allergen portion of the new survey describes the prevalence and distribution of various indoor allergens (including those that derive from dust mites, cockroaches, dogs, cats, rats, mice, and molds) and bacterial endotoxins in the U.S. housing stock. This is the first national survey to assess residential exposure to these agents. Both the lead and allergen portions of the survey identify demographic, housing and behavioral factors associated with high levels of exposure to these agents.

[26] *Available from the National Center for Healthy Housing at* ***http://www.centerforhealthyhousing.org/html/hud_eval.htm***.

[27] *Available at* ***http://www.hud.gov/lea/HUD_NSLAH_Vol1.pdf***.

- ***A Report on the Feasibility of Deconstruction: An Investigation of Deconstruction Activity in Four Cities***, January 2001. This report analyzes the feasibility of economic development involving deconstruction-the selective dismantling or removal of material for reuse from buildings before or instead of demolition. Structural deconstruction is found to be most feasible in metropolitan areas with a surplus of older, deteriorated properties, a demand for used building materials, and nonprofits with both social and environmental objectives.

- ***Steel vs. Wood: Cost and Short Term Energy Comparison-Valparaiso Demonstration Homes***, January 2001. Costs of two nearly identical homes were compared, one framed with cold-formed steel and the other wood-framed. The homes were found to be comparable in terms of labor costs, materials costs, and energy efficiency.

Goal 2: Ensure equal opportunity in housing for all Americans

The following is a selected list of evaluation and research efforts relevant to Strategic Goal 2 that were completed since the beginning of FY 2001.

- ***How Much Do We Know? Public Awareness of the Nation's Fair Housing Laws***, 2002. A representative survey of the general public was used to assess understanding of the fair housing laws. The survey included 10 brief scenarios describing decisions or actions taken by landlords, home sellers, real estate agents or mortgage lenders. Eight of these scenarios involved conduct that, as stipulated in the scenarios, is illegal under federal fair housing law. The survey showed that the average person could correctly identify five instances of unlawful conduct, and that 51 percent of the general public could correctly identify as unlawful six or more of the eight scenarios describing illegal conduct. Conversely, only 23 percent of the public knew the law in two or fewer of the eight cases. Looked at on a scenario-by-scenario basis, a majority of the public could accurately identify illegal conduct in seven of the eight scenarios.

- ***An Analysis of GSE Purchases of Mortgages for African-American Borrowers and their Neighborhoods***, December 2000. (Housing Finance Working Paper Series.) This study examines the record of Fannie Mae and Freddie Mac in providing mortgage funds for African-American borrowers and their neighborhoods. Both GSEs are found to lag the conventional conforming loan market in funding mortgages for African-American borrowers and their neighborhoods. The GSE's shares of mortgage originations are low for both upper-income and lower-income African-American borrowers.

- ***All Other Things Being Equal: A Paired Testing Study of Mortgage Lending Institutions***, (forthcoming). This report on the findings of the Homeownership Testing Program will be a valuable resource for the mortgage lending industry and others working on the issue of discrimination in the home mortgage lending process. The study developed testing methodologies to analyze the nature, level, and extent of lending discrimination at two test sites, Los Angeles and Chicago. The results will form the basis for further action, which may include Secretary Initiated Investigations, further testing on certain mortgage lenders, and training for mortgage loan providers and their regulators. The contractor, the Urban Institute, will also provide a separate package of enforcement tools that will assist the Department when future mortgage lending testing is conducted.

Goal 3: Promote self-sufficiency and asset development of families and individuals.

The following is a selected list of evaluation and research efforts relevant to Strategic Goal 3 that were completed since the beginning of FY 2001.

- *Welfare to Work Housing Voucher Program: Early Implementation Assessment: Final Report*, March 2001. The study investigated Welfare to Work voucher programs implemented by 13 housing agencies, focusing on eligibility criteria, partnerships, and program structures. The Welfare to Work program was found to encourage partner formation and integration of housing programs with other local service providers. The longer-term mandated evaluation will provided a rigorous test of the impact of housing choice vouchers on the earnings, employment, and welfare receipt of families who are receiving, have recently received, or would be eligible to receive Temporary Assistance for Needy Families in seven sites.

- *Small Grants-Interaction of Housing Assistance and Welfare Reform*. During FY 2001, five studies were completed under this grant competition. The studies contribute to the limited literature available about the impact of housing assistance upon the success of transitions from welfare to work. The completed papers are being edited for eventual publication.

Goal 4: Improve community quality of life and economic vitality.

The following is a selected list of evaluation and research efforts relevant to Strategic Goal 4 that were completed since the beginning of FY 2001.

- *Faith Based Organizations in Community Development*, August 2001. This report describes what is known about the role of faith-based organizations (FBOs) in community development, and identifies policy implications and knowledge gaps. More than half of all congregations and FBOs provide some form of human services; relatively few participate in community development activities. The report discusses the organizational capacity of FBOs and gives reasons for limitations on their involvement in community development, which requires a more sustained involvement than most congregations prefer. The report outlines what would have to happen to enable FBOs to become more involved in community development, and reflects on the opportunities and challenges of expanding FBO participation in the field.

- *Interim Assessment of the Empowerment Zones and Enterprise Communities (EZ/EC) Program: A Progress Report*, November 2001. This study provides preliminary insights into how EZ/EC activities are contributing to the transformation of targeted neighborhoods. Results have been mixed for the first 5 years of the program. Significant job growth occurred in four of the six EZs and in the six-area total. Resident- and minority-owned businesses increased substantially across all six EZs, and business owners reported an improved business climate. The number of EZ residents employed in EZ businesses increased. Workforce development activities assisted and placed thousands of EZ/EC residents in jobs, both within and outside the EZ/ECs. Because there was a nationwide economic upturn during the study period (1995-2000), it is difficult to attribute business growth and development exclusively to the EZ initiative. Businesses in the six EZs made little use of the program's Federal tax incentives, with only one-half of the businesses that used tax incentives indicating they were "important" or "somewhat important" in making business decisions. A definitive evaluation of the extent to which EZ/EC program activities contributed to outcomes will be the focus of a study to be conducted after 10 years of program operations.

- ***Smart Codes in your Community: A Guide to Building Rehabilitation Codes***, August 2001. This report examines aspects of the current regulatory system that may impede or increase the cost of the rehabilitation of existing buildings and some early reforms in State and local building rehabilitation regulations.

Goal 5: Ensure public trust in HUD.

The following is a selected list of evaluation and research efforts relevant to Strategic Goal 5 that were completed since the beginning of FY 2001.

- ***How's HUD Doing? Agency Performance As Judged By Its Partners***, December 2001. A statistical survey was conducted of eight important groups of HUD partners, representing all program areas. The respondent groups included community development directors, public housing agency directors, Fair Housing Assistance Program directors, mayors, multifamily owners, and non-profit providers about their capability to achieve intended results, their level of satisfaction with the Department, and their perceptions of recent management improvements at HUD. This study was undertaken as an external assessment of HUD's performance (see performance indicator 5.1.2).

- ***Assessment of the Usefulness of the Products of the Office of Policy Development and Research***, June 2001. This study, the first of its type, was undertaken to assess the performance of the Office of Policy Development and Research (see performance indicators 5.2.1 and 5.2.a). It ascertains the usefulness of PD&R publications released between January 1995 and October 2000. Three areas were examined: circulation of publications through PD&R's information clearinghouse and Internet site (HUD USER); the use of PD&R documents for journal article development; and customer satisfaction with PD&R publications as determined through brief, informal discussions. Of users surveyed, 81 percent rated research products as "valuable."

- ***Global Outlook: International Urban Research Monitor***. This new quarterly publication launched in 2001 is a joint effort of the HUD and the Woodrow Wilson International Center for Scholars. *Global Outlook* reviews and analyzes the most recent and innovative urban ideas and activities-including research, public policy, and best practices-from communities, cities, regions, and nations around the world.

Appendices

Systems Not In Compliance With Federal Financial Management Systems Requirements

Glossary of Acronyms

Systems Not in Compliance with Federal Financial Management Systems Requirements

The following 17 HUD Financial Management Systems are reported as not in compliance with Federal Financial Management Systems Requirements as of fiscal year end 2001. Prior year audits have discussed the weaknesses with FHA's feeder systems, the perceived vulnerabilities of the manual processes and procedures implemented to convert system data to be U.S. Standard General Ledger compliant, and inability to update the Departmental general ledger in a timely basis. The implementation of the FHA subsidiary general ledger will address the deficiencies associated with many of the non-compliant systems. The reporting of 17 non-compliant systems as of fiscal year end 2001 represents recognition of the nature of the reported systems' deficiencies and a recasting of the number of non-compliant systems. The increase in the number of non-compliant systems from the 11 reported as of fiscal year end 2000 does not represent newly developed systems' deficiencies.

The HUD IG is no longer reporting non-compliance with applicable accounting standards as a result of efforts taken by the Department. Concerns continue to exist with HUD's non-compliance with Federal Financial Management Systems requirements and compliance with the U.S. Standard General Ledger.

System Number	System Name
A21	Loan Accounting System
A43	Single Family Insurance System
A43C	Single Family Insurance Claims Subsystem
A56	Mortgage Insurance General Accounting
A80D	Distributive Shares and Refund Subsystem
A80B	Single Family Premium Collection Sys-Periodic
A80N	Single Family Mortgage Notes Servicing
A80R	Single Family Premium Collection Sys-Upfront
A80S	Single Family Acquired Asset Management
F12	Home Equity Conversion Mortgages
F31	Cash, Control, Accounting, Reporting System (CCARS)
F47	Multifamily Insurance
F71	Title I Notes Servicing
F72	Title I Insurance and Claims
F75	Multifamily Insurance and Claims System
F87	Tenant Rental Assistance Certification System
N07	Regional Operating Budget and Obligation Tracking

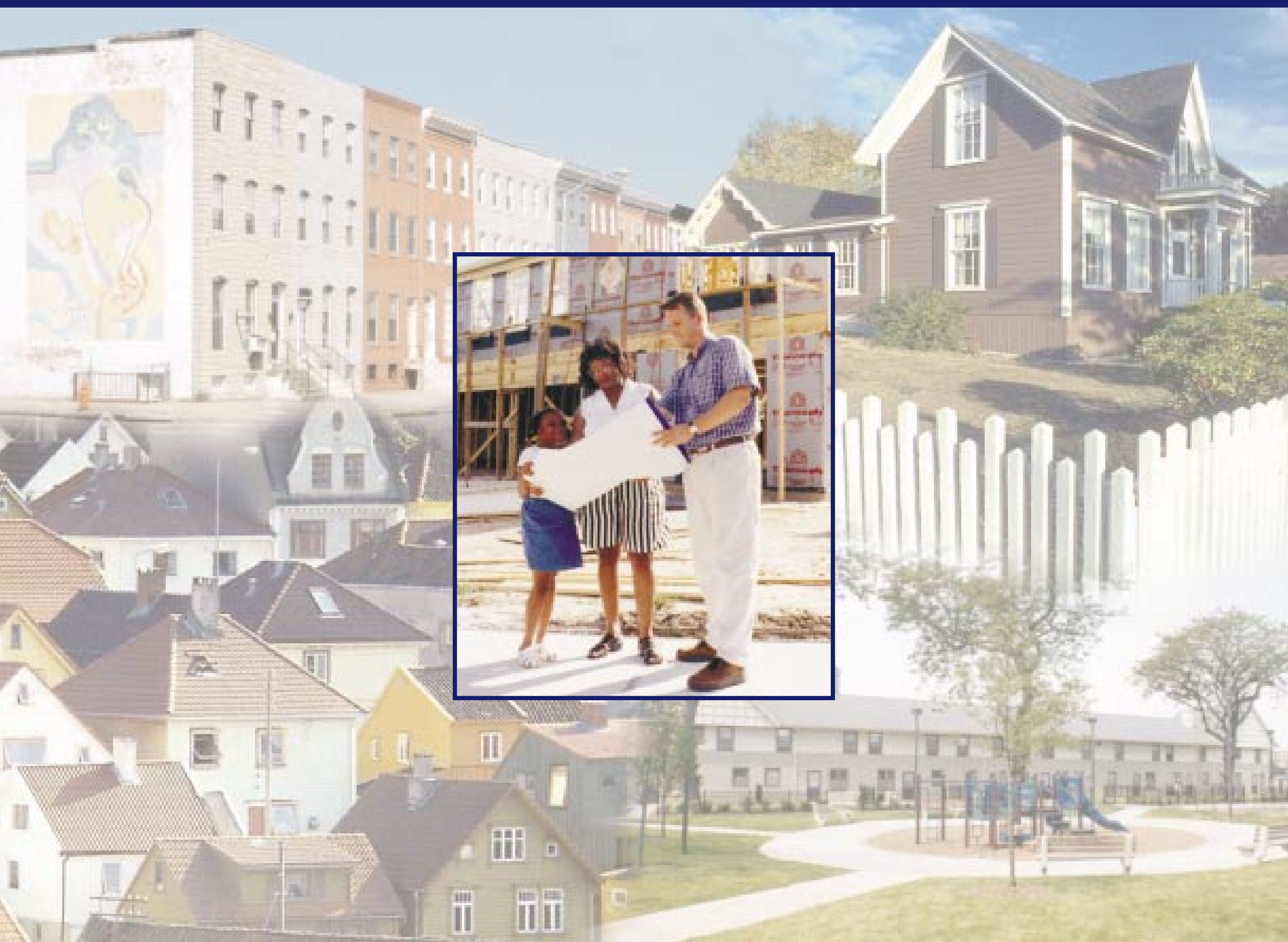
Glossary of Acronyms

Acronym	Definition
ABA	Architectural Barriers Act
ACA	Asset Control Area
ACC	Annual Contributions Contract
ACSI	American Customer Satisfaction Index
AHS	American Housing Survey
APP	Annual Performance Plan
APR	Annual Progress Report
ARCATS	Audit Resolution Corrective Action Tracking System
BEDI	Brownfields Economic Development Initiative
BFC	Budget Functional Classification
CA	Contract Administrator
CCARS	Cash, Control, Accounting and Reporting System
CDBG	Community Development Block Grant
CDC	Center for Disease Control and Prevention
CEF	Community Empowerment Zone
CFO	Chief Financial Officer
CI	Confidence Interval
CLF	Civilian Labor Force
CM	Configuration Management
CMHI	Cooperative Management Housing Insurance
CoC	Continuum of Care
COPC	Community Outreach Partnership Centers
COTS	Commercial Off-the-Shelf
CPD	Community Planning and Development
CSFSS	Consolidated Single Family Statistical System
CSRS	Civil Service Retirement System
D&A	Discussion and Analysis
DAP	Development Applications Processing
DEC	Departmental Enforcement Center
DERS	Drug Elimination Reporting System
DOJ	Department of Justice
DQIP	Data Quality Improvement Program
EA	Enterprise Architecture
EAMS	Enterprise Architecture Management System
EBL	Elevated Blood Level
EC	Enterprise Communities
EDI	Economic Development Initiative
ELIHPA	Emergency Low-Income Housing Preservation Act of 1987
ELIR	Extremely-Low-Income Renter
EZ	Empowerment Zones
Fannie Mae	Federal National Mortgage Association
FASAB	Federal Accounting Standards Advisory Board
FASS	Financial Assessment Subsystem
FEAF	Federal Enterprise Architecture Framework
FECA	Federal Employee Compensation Act
FERS	Federal Employee Retirement System
FFB	Federal Financing Bank
FHA	Federal Housing Administration

GLOSSARY OF ACRONYMS

Acronym	Definition
FHAP	Fair Housing Assistance Program
FHIP	Fair Housing Initiatives Program
FHEO	Fair Housing and Equal Opportunity
FMC	Financial Management Center
FMFIA	Federal Managers' Financial Integrity Act
Freddie Mac	Federal Home Loan Mortgage Corporation
FSS	Family Self-Sufficiency
FY	Fiscal Year
GAO	General Accounting Office
GI	General Insurance
GPEA	Government Paperwork Elimination Act
Ginnie Mae	Government National Mortgage Association
GIS	Geographic Information System
GSE	Government-Sponsored Enterprises
HA	Housing Agency (or Authority)
HECM	Home Equity Conversion Mortgage
HOME	Housing Investment Partnership
HOPWA	Housing Opportunities for Persons With AIDS
HTMS	HUD Travel Management System
HUDCAPS	HUD Central Accounting and Program System
ICDBG	Indian Community Development Block Grants
IDIS	Integrated Disbursement and Information System
IHBG	Indian Housing Block Grants
IRS	Internal Revenue Service
IT	Information Technology
I-TIPS	Information Technology Investment Portfolio
LEAP	Lead Elimination Action Program
LIHPRHA	Low-Income Housing Preservation and Resident Homeownership Act of 1990
LIHTC	Low Income Housing Tax Credit
LLG	Liabilities for Loan Guarantees
LOCCS	Line of Credit Control System
MAP	Multifamily Accelerated Processing
MBS	Mortgage Backed Security
MC	Management Concern
MF	Multifamily
M&M	Management and Marketing
M2M	Market-to-Market
MMI	Mutual Mortgage Insurance
MMIF	Mutual Mortgage Insurance Fund
MNA	Mortgages Notes Assigned
MTCS	Multifamily Tenant Characteristics System
MTO	Moving to Opportunity
NAHASDA	Native American Housing Assistance and Self-Determination Act
NRSA	Neighborhood Revitalization Strategy Areas
OAS	Organization Assessment Survey
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget

Acronym	Definition
OMHAR	Office of Multifamily Housing Assistance Restructuring
PAE	Participating Administrative Entity
PAS	Program Accounting System
PATH	Partnership for Advancing Technology in Housing
PBC	Performance Based Contracting
PD&R	Policy Development & Research
PERMS	Performance Measurement System
PH	Public Housing
PHA	Public Housing Authority (or Agency)
PHAS	Public Housing Assessment System
PHDEP	Public Housing Drug Elimination Program
PHMAP	Public Housing Management Assessment Program
PIC	Public and Indian Housing Information Center
PIH	Public and Indian Housing
POA	Public Housing Authorities, Owners and Agents
QMR	Quality and Management Review Program
RASS	Resident Assessment Subsystem
RC	Renewal Communities
REAC	Real Estate Assessment Center
REAP	Resource Estimation and Allocation Process
REMIC	Real Estate Mortgage Investment Conduits
REMS	Real Estate Management System
REO	Real Estate Owned Properties
RESPA	Real Estate Settlement Procedures Act
RHED	Rural Housing Economic Development Program
RHIIP	Rental Housing Integrity Improvement Project
RHS	Rural Housing Service
SAMS	Single Family Acquired Asset Management System
SEMAP	Section 8 Management Assessment
SFFAS	Statement of Federal Financial Accounting Standards
SFPCS-U	Single Family Premium Collection Subsystem-Upfront
SHOP	Self Help Opportunities Program
SRI	Special Risk Insurance
SS	Social Security
SSA	Social Security Administration
SSI	Supplemental Security Income
TANF	Temporary Assistance for Needy Families
TARC	Troubled Agency Recovery Centers
TBRA	Tenant-based Rental Assistance
TDHE	Tribally Designated Housing Entity
TEAM	Time Estimation and Allocation Mechanism
TEAPOTS	Title Eight Automated Paperless Office and Tracking System
TOTAL	Technology Open to All Lenders
TRACS	Tenant Rental Assistance Certification System
UCR	Uniform Crime Reports
VA	Veterans Affairs
VCA	Voluntary Compliance Agreement
VLIR	Very-Low-Income Renter
WtW	Welfare to Work



This report is available on the internet at
www.hud.gov